IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS UNDER RULE 144A OR (2) NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR (IN THE CASE OF NOTES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S) outside the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you will be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons and that the electronic mail address that you gave us and to which the Offering Circular has been delivered is not located in the United States and (2) you consent to delivery of the Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to the offering of securities to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of Tencent Holdings Limited (the "**Issuer**") in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, Morgan Stanley & Co. International plc, Merrill Lynch (Asia Pacific) Limited and Deutsche Bank AG, Singapore Branch (each an "**Arranger**", and together, the "**Arrangers**"), any Dealer (as defined in the Offering Circular), any person who controls any Arranger or Dealer, any director, officer, employee or agent of the Issuer or any Arranger or any Dealer, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Offering Circular

TENCENT HOLDINGS LIMITED
騰訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

US$30,000,000,000
Global Medium Term Note Programme

Under the US$30,000,000,000 Global Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Tencent Holdings Limited (the "**Issuer**" or the "**Company**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**").

Notes may be issued in bearer or registered form. The aggregate nominal amount of Notes outstanding will not at any time exceed US$30,000,000,000 (or its equivalent in other currencies, subject to any duly authorised increase). The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" or any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

The Programme is listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**") by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the SEHK) only during the 12-month period from the date of this Offering Circular. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined under "Terms and Conditions of the Notes" and each term therein, a "**Condition**") of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the SEHK, will be delivered to the SEHK, on or before the date of issue of the Notes of such Series. This Offering Circular may not be used to consummate sales of Notes, unless accompanied by a Pricing Supplement. The Conditions, as amended, supplemented and/or replaced by the relevant Pricing Supplement, are applicable to each Series of Notes issued on or after the date of this Offering Circular.

The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK or any other stock exchange.

Each Series (as defined in "*Summary of the Programme*") of Notes in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note (each a "**Temporary Global Note**") or a permanent global note (each a "**Permanent Global Note**"), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in Permanent Global Notes (together with the Temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant Pricing Supplement, definitive Notes ("**Definitive Notes**"), from the 40th day after the relevant issue date of such Series, upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes of each Series to be issued in registered form ("**Registered Notes**") and which are sold in an "offshore transaction" within the meaning of Regulation S ("**Unrestricted Notes**") will initially be represented by a permanent registered global note certificate (each an "**Unrestricted Global Note Certificate**") without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream**"), with a common depositary on behalf of Euroclear and Clearstream, (b) in the case of a Series intended to be cleared through the Central Moneymarkets Unit Service (the "**CMU Service**"), operated by the Hong Kong Monetary Authority (the "**HKMA**"), with a sub-custodian for the CMU Service, (c) in the case of a Series intended to be cleared through The Depository Trust Company ("**DTC**"), registered in the name of Cede & Co. as nominee for DTC and (d) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, DTC and/or the CMU Service, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. Registered Notes which are sold in the United States to "qualified institutional buyers" (each, a "**QIB**") within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act ("**Restricted Notes**") will initially be represented by a permanent registered global note certificate (each a "**Restricted Global Note Certificate**" and, together with the relevant Unrestricted Global Note Certificates, the "**Global Note Certificates**"), without interest coupons, which may be deposited on the relevant issue date with a custodian (the "**DTC Custodian**") for, and registered in the name of Cede & Co. as nominee for, DTC or with a common depositary on behalf of Euroclear and Clearstream. The provisions governing the exchange of interests in Global Notes for other Global Notes and Definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons. Accordingly, the Notes may be offered and sold (i) in the United States (as defined in Regulation S) in registered form only to QIBs in transactions exempt from registration under the Securities Act and/or (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S. Any Series of Notes may be subject to additional selling restrictions. The applicable Pricing Supplement in respect of such Series of Notes will specify any such restrictions. See "*Subscription and Sale*" and the applicable Pricing Supplement. Bearer Notes are subject to U.S. tax requirements.

Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. ("**S&P**") has assigned a rating of "A+" to the Programme, Moody's Investors Service, Inc. ("**Moody's**") has assigned a rating of "A1" to the Programme and Fitch Ratings Ltd. ("**Fitch**") has assigned a rating of "A+" to the Programme. The rating is only correct as at the date of the Offering Circular. Notes issued under the Programme may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. See "*Risk Factors*" beginning on page 19 for a discussion of factors that you should consider carefully before investing in the Notes.

As at the date of this Offering Circular, we have outstanding under the Programme US$18.0 billion Notes. See "*Explanatory Note*".

Notice to Hong Kong investors: the Company confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the SEHK on that basis. Accordingly, the Company confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

Application has been made to SEHK for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on SEHK) ("**Professional Investors**") only during the 12-month period after the date of this Offering Circular. This document is for distribution to Professional Investors only.

SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of Programme and the Notes on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK for the purpose of giving information with regard to the Issuer and the Notes. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Arrangers

Morgan Stanley **BofA Securities** **Deutsche Bank**

Dealers

Morgan Stanley **Bank of China (Hong Kong)** **BofA Securities** **Deutsche Bank** **HSBC**

The date of this Offering Circular is 13 April 2021.

Tencent Holdings Limited (the "**Issuer**" or the "**Company**") having made all reasonable enquiries confirms that to its best knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries taken as a whole (the "**Group**") and the Notes which is material in the context of the issue and offering of the Notes; (ii) the statements contained herein relating to the Issuer, the Group and the Notes are in every material respect true and accurate and not misleading and there are no other facts in relation to the Issuer, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (iii) the statements of intention, opinion and belief or expectation contained in this Offering Circular with regard to the Issuer and the Group are honestly made or held.

Each Series (as defined herein) of Notes issued on or after the date of this Offering Circular will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the Pricing Supplement specific to such Series. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of Notes, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, Morgan Stanley & Co. International plc, Merrill Lynch (Asia Pacific) Limited and Deutsche Bank AG, Singapore Branch (each an "**Arranger**", and together, the "**Arrangers**") to inform themselves about and to observe any such restrictions. None of the Issuer, the Arrangers or the Dealers (as defined below) represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers or the Dealers, which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the Netherlands, the United Kingdom, the Mainland of China, Hong Kong, Japan and Singapore, and to persons connected therewith.

The Notes may be offered or sold (i) in the United States only to QIBs and only in registered form, and/or (ii) outside the United States, to non-U.S. persons in offshore transactions in reliance on Regulation S. Any Series of Notes may be subject to additional selling restrictions. Any additional restrictions on the sale or transfer of any Series of Notes will be specified in the applicable Pricing Supplement for such Notes.

If Notes in registered form are being offered or sold to U.S. persons or in the United States, prospective investors are hereby notified that sellers of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Arrangers and Dealers, through their respective selling agents, may arrange for the offer and resale of such Notes to U.S. persons or persons in the United States who are QIBs in reliance on Rule 144A or pursuant to another exemption from the registration requirements of the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of this Offering Circular, see "*Subscription and Sale*".

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

This Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

MiFID II product governance/target market — The Pricing Supplement may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise, neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance/target market — The Pricing Supplement may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**EU Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"): Unless otherwise stated in the Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme shall be (A) prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and (B) Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Listing of the Notes on the SEHK is not to be taken as an indication of the merits of the Issuer, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, any Arranger or any Dealer.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Arrangers, the Dealers, the Agents or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

EXPLANATORY NOTE

The maximum aggregate principal amount of the Notes outstanding at any one time under the Programme will not exceed US$30,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement as defined under "*Subscription and Sale*"). The maximum aggregate principal amount of the Notes, which may be outstanding at any one time under the Programme, may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement. As at the date of this Offering Circular, we have outstanding under the Programme US$900 million Senior Notes due 2025, US$100 million Senior Notes due 2035, US$1,000 million Senior Notes due 2023, US$500 million Floating Rate Notes due 2023, US$2,500 million Senior Notes due 2028, US$1,000 million Senior Notes due 2038, US$1,250 million Senior Notes due 2024, US$750 million Floating Rate Notes due 2024, US$500 million Senior Notes due 2026, US$3,000 million Senior Notes due 2029, US$500 million Senior Notes due 2049, US$1,000 million Senior Notes due January 2026, US$2,250 million Senior Notes due 2030, US$2,000 million Senior Notes due 2050 and US$750 million Senior Notes due 2060, which amounted to US$18.0 billion in the aggregate.

In connection with the issue of any Series of Notes, the Dealer(s) (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and rules, over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including third-party market research, publicly available information and other industry sources. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Arrangers, the Dealers, the Trustee or any Agent or their respective directors, officers, employees, agents and affiliates, and neither the Issuer, the Arrangers, the Dealers, the Trustee or any Agent nor their respective directors, officers, employees, agents and affiliates make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Information contained in websites of third-party market research firms do not constitute part of this Offering Circular.

None of the Arrangers, the Dealers, the Trustee or any Agents has separately verified all of the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Arrangers, the Dealers, the Trustee, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Notes or the issue and offering of the Notes. The Arrangers, the Dealers, Trustee and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Group. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation, as it deems necessary. None of the Arrangers, the Dealers, the Trustee or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Trustee, the Agents or any of them.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "we", "us", "our", the "Company", the "Group" and words of similar import are to Tencent Holdings Limited itself, or to Tencent Holdings Limited and its subsidiaries, as the context requires; all references to "US$", "USD" and to "U.S. dollar(s)" are to United States dollars; all references to "HK$", "H.K. dollar(s)" and to "HKD" are to Hong Kong dollars; all references to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro as amended; all references to "yen" are to Japanese yen; all references to "Renminbi", "CNH", "RMB" and "CNY" are to the currency of the PRC; all references to "United States" or "U.S." are to the United States of America; references to the "PRC" or "China" in this Offering Circular mean the People's Republic of China, except references to the "PRC" in the context of the laws and regulations shall be exclusive of the laws and regulations of Hong Kong, Macau and Taiwan"; references to "PRC Government" mean the government of the PRC; references to "Hong Kong" are to the Hong Kong Special Administrative Region; references to "Macau" are to the Macao Special Administrative Region; and all references to "United Kingdom" are to the United Kingdom of Great Britain and Northern Ireland.

Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi were made at a rate of RMB6.5250 to US$1.00, the exchange rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on 31 December 2020. We make no representation that any U.S. dollar, Renminbi, or H.K. dollar amounts could have been, or could be, converted into U.S. dollars, Renminbi or H.K. dollars, as the case may be, at any particular rate, at the rates stated above, or at all.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual financial statements and any interim financial statements (whether audited or unaudited) published subsequently to such annual financial statements of the Issuer from time to time on the SEHK and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the office of the Issuer at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and at the specified offices of the Paying Agents and the principal office in Hong Kong of the Principal Paying Agent (as defined under "*Summary of the Programme*") (or such other Paying Agent for the time being in Hong Kong) set out at the end of this Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

The Group's consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 included in this Offering Circular has been derived from the Group's audited consolidated financial statements. Potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**"). IFRS 16 "Leases" issued by the IASB (the "**new accounting standard**") came into effect from 1 January 2019. In preparing the audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, the Company has adopted the new accounting standard as and when it came into effect and has 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 2019 and 2020 may not be comparable with the financial statements for the previous years, including the audited consolidated financial statements as at and for the year ended 31 December 2018. For the impact on adoption of the new accounting standard, please refer to Note 2.2 to the Company's audited consolidated financial statements as at and for the year ended 31 December 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 2019 and 2020 may not be comparable with the financial statements for previous years*".

AVAILABLE INFORMATION

For so long as any of the outstanding Notes are represented by one or more Restricted Global Note Certificates and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which the Issuer is neither subject to the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from the reporting requirements of the Exchange Act under Rule 12g3-2(b) thereunder, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owners or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is incorporated under the laws of the Cayman Islands. Most of its directors and officers reside outside the United States (principally in the PRC). A substantial portion of the Issuer's assets and the assets of such persons are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons, or to enforce against the Issuer or such persons judgements obtained in United States courts, including judgements predicated upon the civil liability provisions of the federal securities laws of the United States. The Issuer has been advised by its PRC counsel, Han Kun Law Offices, that there is uncertainty as to whether the courts of the PRC would (1) enforce judgements of the U.S. courts obtained against the Issuer or its directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (2) entertain original actions brought in the courts of the PRC against the Issuer or its directors and officers predicated upon these civil liabilities provisions.

GLOSSARY OF TECHNICAL TERMS

This glossary contains terms used in this Offering Circular as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

"2007 Share Award Scheme"	the share award scheme adopted by the Company on 13 December 2007, as amended
"2008 EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得税法), which came into effect on 1 January 2008 and was amended in 2017 and 2018
"2013 Share Award Scheme"	the share award scheme adopted by the Company on 13 November 2013, as amended
"2018 Institutional Reform Plan"....	the institutional reform plan based on the "Plan for Deepening the Institutional Reform of the Party and State" (深化黨和國家機構改革方案) issued by the Central Committee of the Communist Party of China and the "Institutional Reform Plan of the State Council" (國務院機構改革方案) issued by the National People's Congress in March 2018
"2019 Share Award Scheme"	the share award scheme adopted by the Company on 25 November 2019, as amended
"2023 Floating Rate Notes".....	the Company's US$500,000,000 3-month USD LIBOR + 0.605% Floating Rate Notes due 2023
"2023 Notes"	the Company's US$1,000,000,000 2.985% Senior Notes due 2023
"2024 Floating Rate Notes".....	the Company's US$750,000,000 3-month USD LIBOR + 0.910% Floating Rate Notes due 2024
"2024 Notes"	the Company's US$1,250,000,000 3.280% Senior Notes due 2024
"2025 Notes"	the Company's US$900,000,000 3.800% Senior Notes due 2025
"2026 Notes"	the Company's US$500,000,000 3.575% Senior Notes due 2026
"2028 Notes"	the Company's US$2,500,000,000 3.595% Senior Notes due 2028
"2029 Notes"	the Company's US$3,000,000,000 3.975% Senior Notes due 2029
"2030 Notes"	the Company's US$2,250,000,000 2.390% Senior Notes due 2030
"2035 Notes"	the Company's US$100,000,000 4.700% Senior Notes due 2035
"2038 Notes"	the Company's US$1,000,000,000 3.925% Senior Notes due 2038
"2049 Notes"	the Company's US$500,000,000 4.525% Senior Notes due 2049
"2050 Notes"	the Company's US$2,000,000,000 3.240% Senior Notes due 2050

"2060 Notes"	the Company's US$750,000,000 3.290% Senior Notes due 2060
"Avatar"	customisable virtual character
"Awarded Share(s)"	the shares of the Company awarded under the Share Award Schemes
"BBS"	bulletin board system
"Beijing Starsinhand"	Beijing Starsinhand Technology Company Limited (北京市掌中星天下信息技術有限公司), a company established on 13 July 2005 in the PRC with Limited Liability
"Beijing Tencent Culture Media"	Beijing Tencent Culture Media Company Limited (北京騰訊文化傳媒有限公司), a company established on 16 July 2014 in the PRC with limited liability
"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
"China Literature"	China Literature Limited, 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 SEHK
"China Mobile"	China Mobile Communications Corporation (中國移動通信集團公司) and its branches, subsidiaries and affiliates
"China Telecom"	China Telecommunications Corporation (中國電信股份公司) and its branches, subsidiaries and affiliates
"China Unicom"	China United Network Communications Group Company Limited (中國聯合網絡通信集團有限公司) and its branches, subsidiaries and affiliates
"CNNIC"	China Internet Network Information Center (中國互聯網絡信息中心)
"Chongqing Tencent Information"	Chongqing Tencent Information Technology Company Limited (重慶騰訊信息技術有限公司)
"Companies Law"	the Companies Act (2021 Revision) of the Cayman Islands
"Company"	Tencent Holdings Limited (騰訊控股有限公司), a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the SEHK (Stock Code: 00700)
"CIT"	corporate income tax

"Cyber Tianjin"	Tencent Cyber (Tianjin) Company Limited (騰訊數碼(天津)有限公司), a company established on 8 February 2004 in the PRC with limited liability and a wholly-owned subsidiary of the Company
"DAU"	daily active user accounts
"Didi Chuxing"	Didi Chuxing Technology Co., Ltd., which operates Didi Chuxing
"Director(s)"	director(s) of the Company or any of them
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"Eligible Person(s)"	any person(s) eligible to participate in the respective Share Award Schemes
"EUR"	the lawful currency of the European Union
"FinTech"	financial technology
"Floating Rate Notes"	floating rate notes issued or to be issued under the Programme from time to time
"FVOCI"	financial assets at fair value through other comprehensive income
"FVPL"	financial assets at fair value through profit or loss
"GAPP"	PRC General Administration of Press and Publication (中華人民共和國新聞出版總署), which was reformed into the State General Administration of Press, Publication, Radio, Film and Television (中華人民共和國國家新聞出版廣電總局) after it was merged with the State Administration of Radio, Film and Television (中華人民共和國國家廣播電影電視總局) on 22 March 2013
"Group"	the Company and its subsidiaries
"Guangzhou Tencent Technology"	Guangzhou Tencent Technology Company Limited (廣州騰訊科技有限公司)
"Guian New Area Tencent Cyber"	Guian New Area Tencent Cyber Company Limited (貴安新區騰訊數碼有限公司)
"Hainan Network"	Hainan Tencent Network Information Technology Company Limited (海南騰訊網絡信息技術有限公司)
"HIBOR"	Hong Kong InterBank Offered Rate
"HKD"	the lawful currency of Hong Kong
"Hootsuite"	HootSuite Media Inc., a third-party market research firm

"HUYA"	HUYA Inc., 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
"IaaS"	Infrastructure-as-a-Service
"IFRS"	International Financial Reporting Standards
"IM"	Instant Messaging
"IPO"	initial public offering
"iResearch"	iResearch Consulting Group, a third-party market research firm
"January 2026 Notes"	the Company's US$1,000,000,000 1.810% Senior Notes due January 2026
"JD.com"	JD.com, Inc., a limited liability company incorporated under the laws of the Cayman Islands
"LIBOR"	London InterBank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on SEHK
"M&A"	mergers and acquisitions
"MAU"	monthly active user accounts
"Meituan"	Meituan (formerly known as Meituan Dianping), a limited liability company incorporated in the Cayman Islands and the shares of which are listed on the SEHK
"MIIT"	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), formerly known as Ministry of Information Industry of the PRC (MII) (中華人民共和國信息產業部), including its local branches
"MMORPG(s)"	massive multi player online role playing game(s)
"MOBA"	Multiplayer Online Battle Arena
"MOC"	Ministry of Culture of the PRC (中華人民共和國文化部), which was reformed according to the 2018 Institutional Reform Plan and known as the Ministry of Culture and Tourism (中華人民共和國文化和旅遊部) since 18 March 2018
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)

"MPS"	Ministry of Public Security of the PRC (中華人民共和國公安部)
"NASDAQ"	NASDAQ Global Select Market
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Nomination Committee"	the nomination committee of the Company
"NRTA"	National Radio and Television Administration (中華人民共和國國家廣播電視總局)
"O2O"	online-to-offline, or offline-to-online
"Online Games Ethics Committee"	Online Games Ethics Committee of the PRC (中華人民共和國網絡遊戲道德委員會)
"PaaS"	Platform-as-a-Service
"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"PC"	personal computer
"Pinduoduo"	Pinduoduo Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands
"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 enterprise income tax as defined in the 2008 EIT Law
"Pre-IPO Option Scheme"	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
"Professional Investors"	professional investors (as defined in Chapter 37 of the Listing Rules)
"PUBG"	PlayerUnknown's Battlegrounds
"QIBs"	qualified institutional buyers within the meaning of Rule 144A

"QuestMobile"	QuestMobile, a third-party market research firm
"R&D"	research and development
"RMB"	the lawful currency of the PRC
"SaaS"	Software-as-a-Service
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), including its local branches. SAIC was reformed according to the 2018 Institutional Reform Plan and known as the State Administration for Market Regulation of the PRC (中華人民共和國市場監督管理總局) since 21 March 2018
"SAMR"	State Administration for Market Regulation (國家市場監督管理總局), established by merging the SAIC, the General Administration of Quality Supervision, Inspection and Quarantine and the China Food and Drug Administration according to the 2018 Institutional Reform Plan
"SAPPRFT"	State General Administration of Press, Publication, Radio, Film and Television (中華人民共和國國家新聞出版廣電總局), formerly known as the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署) and the State Administration of Radio, Film, and Television of the PRC (中華人民共和國國家廣播電影電視總局), which was reformed according to the 2018 Institutional Reform Plan and currently known as National Radio and Television Administration (中華人民共和國國家廣播電視總局) under the State Council and the State Administration of Press and Publication (National Copyright Bureau) (中華人民共和國國家新聞出版署(國家版權局)) under the Publicity Department of the Central Committee of the Communist Party of China (中共中央宣傳部)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家税務總局) including its local branches
"SEHK"	The Stock Exchange of Hong Kong Limited
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shanghai Tencent Information"	Shanghai Tencent Information Technology Company Limited (上海騰訊信息技術有限公司)
"Share Award Schemes"	the 2007 Share Award Scheme, the 2013 Share Award Scheme and the 2019 Share Award Scheme

"Shenzhen Tencent Information" ...	Shenzhen Tencent Information Technology Company Limited (深圳市騰訊信息技術有限公司)
"Shenzhen Tencent Network"	Shenzhen Tencent Network Information Technology Company Limited (深圳市騰訊網絡信息技術有限公司)
"Shiji Kaixuan".....	Shenzhen Shiji Kaixuan Technology Company Limited (深圳市世紀凱旋科技有限公司), a company established on 13 January 2004 in the PRC with limited liability
"SMEs".....	small and medium enterprises
"SMS".....	short message service
"SNS"	social networking services
"State Council".....	State Council of the PRC (中華人民共和國國務院)
"Supercell".....	Supercell Oy, a private company incorporated in Finland
"Tencent Beijing"	Tencent Technology (Beijing) Company Limited (騰訊科技(北京)有限公司), a company established on 30 March 2005 in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Tencent Chengdu".....	Tencent Technology (Chengdu) Company Limited (騰訊科技(成都)有限公司), a company established on 10 July 2008 in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Tencent Computer".....	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established on 11 November 1998 in the PRC with limited liability
"Tencent Shanghai".....	Tencent Technology (Shanghai) Company Limited (騰訊科技(上海)有限公司), a company established on 23 July 2008 in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Tencent Technology".....	Tencent Technology (Shenzhen) Company Limited (騰訊科技(深圳)有限公司), a company established on 24 February 2000 in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Tencent Wuhan".....	Tencent Technology (Wuhan) Company Limited (騰訊科技(武漢)有限公司), a company established on 18 November 2011 in the PRC with limited liability and a wholly-owned subsidiary of the Company
"TME"	Tencent Music Entertainment Group (騰訊音樂娛樂集團), 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

"TME 2025 Notes"	TME's US$300,000,000 1.375% Senior Notes due 2025
"TME 2030 Notes"	TME's US$500,000,000 2.000% Senior Notes due 2030
"Tongcheng-Elong"	Tongcheng-Elong Holdings Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands
"TPV"	Total Payment Volume
"Trustee"	an independent trustee appointed by the Company for managing the Share Award Schemes
"United States"	the United States of America
"USD"	the lawful currency of the United States
"VAS"	value-added services
"Walmart"	Walmart Inc. and its branches, subsidiaries and affiliates
"WAP"	Wireless Application Protocol, an open, global specification that allows Internet access and other broadband services on mobile wireless devices
"We Are Social"	We Are Social Ltd., a third-party market research firm
"WFOEs"	Tencent Technology, Cyber Tianjin, Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network and Guian New Area Tencent Cyber

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular may constitute "*forward-looking statements*". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "aim", "intend", "project", "seek to", "predict", "future", "goal" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer or the Group and the plans and objectives of the management of the Issuer and the Group for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results or performance of the Issuer or the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's and the Group's present and future business strategies of the Issuer and the Group and the environment in which the Issuer or the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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SUMMARY OF THE ISSUER

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire Offering Circular, including "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto, before making an investment decision.

OUR BUSINESS

Our mission and vision is "Value for Users, Tech for Good", guided by our values of "Integrity, Proactivity, Collaboration and Creativity". Throughout our history, 'users' and 'responsibilities' are at the heart of everything we do. We prioritise the needs of our users and incorporate the consideration of social responsibilities in our products and services. We strive to innovate technologies while honoring our culture and traditions. We support various industries to upgrade digitally and promote the sustainable development of society.

We are a leading Internet services company operating a broad range of Internet services including communication and social services, 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. Our expansive product offerings, advanced technologies and infrastructure services form a hub for fulfilling people's everyday needs.

We operate the largest communication and social community in China in terms of user base through *Weixin and QQ*. Our highly-engaged communication and social services are the foundation of our online community and provide a gateway to our VAS, connecting our users with products, services and enterprises. We had the largest number of DAU and MAU among social communities on both mobile and PC in February 2021, according to iResearch. *Weixin* and *WeChat* had a combined MAU of 1,225.0 million and *QQ* had a smart device MAU of 594.9 million as at 31 December 2020.

As an industry leader and global pioneer of innovative technology solutions, our products and services connect users, content providers, enterprises and developers. Our social products link our users to a vast array of best-in- class digital content and multimedia services across the globe. *Weixin* shapes consumers' digital lives in China. Each day, more than 120 million users post in *Weixin Moments*, 360 million users read *Weixin Official Accounts* articles and 400 million users access *Weixin Mini Programs*. Services such as *Weixin Pay* and *Weixin Mini Programs* are becoming increasingly interconnected and serve as central hubs of mobile connectivity. At the same time, SMEs and brands increasingly connect with users via *Weixin*. For example, *Weixin Pay* facilitates easy and secure online and offline transactions, organically connecting users with businesses. It provides convenient access to other high frequency services within its interface as well, which are grouped under the four verticals of Financial Services, Daily Services, Travel & Transportation, and Shopping & Entertainment. *Weixin Mini Programs* connect online and offline services with users on *Weixin*. They help companies digitalise their businesses by tapping into the growing smart-business and smart-living needs of our user base, covering a massive spectrum of traditionally offline consumption scenarios such as retail, healthcare, and mobility. In 2020, *Weixin Mini Programs* deepened its penetration into even more use cases, with annual transaction volume more than doubling year-on-year. Within *QQ*, we focused on enhancing interactive experiences in vertical communities. *QQ* allows us to increase stickiness among young users by enriching communal experiences such as playing AI-powered social games and watching *Tencent Video* together in video calls. We also provide interactive learning experiences such as quiz challenges through partnering with educational institutions. We launched *Video Accounts* as a separate ID-based, short form content creation product that allows individuals, media and businesses to share content and engage with readers and customers, and strengthen brand awareness and content management. *Video Accounts* facilitate public sharing of informative and entertainment content in video and live streaming formats, and link public and private domains to help content creators and brands acquire and manage customers more efficiently. Users are increasingly uploading personal videos, and sharing them with friends, in *Weixin Moments* and chats. *Video Accounts* also enable brands and enterprises to broaden their audience reach and drive transactions, especially via links to *Weixin Mini Programs*.

Leveraging our massive user base, we have developed leading digital content services offering a broad range of high-quality content. We have curated popular IP and extended our IP value across various forms, such as literature, anime, games and long form video services, to create appealing content and attract paying users. We are the leader in the long form video industry with 123 million video subscriptions as at 31 December 2020, benefitting from recent releases of popular anime IPs and drama series. We are also building vibrant short form video communities to encourage interaction between viewers and creators, and to deliver knowledge-based video content. We offer premium music content through *TME*, with over 622 million average mobile MAU in online music and 223 million average MAU in social entertainment in the last quarter of 2020. We operate a leading online content library and publisher in China, *China Literature,* as measured by the scale and quality of writers, readers and literary content offerings. At *China Literature*, we have sought to enrich free and paid content, community features and an IP-centric ecosystem. By driving synergies across our digital content services, we have significantly enhanced the value of our IP portfolio.

We are the largest online game service provider globally as measured by revenues in 2020. We have developed and published highly popular games in a variety of genres. During 2020, we experienced rapid growth in our international online game business due to our enhanced development and publishing capabilities. Our global games segment revenue grew 36% year-on-year in 2020. We strengthened our global leadership in mobile and PC games via self-developed franchises and IP collaboration with partners and investee companies. Our leadership spans multiple genres, including battle arena, action and role-playing games, as well as multiple products, across mobile and PC. *Honour of Kings* was the top-grossing mobile game worldwide in 2020 for the second consecutive year and continued as the most popular mobile game in China by MAU. As at 31 December 2020, we, together with our majority owned subsidiaries, had developed 4 of the top 10 smart phone games by MAU globally, according to QuestMobile and App Annie.

Our substantial and engaged user base, combined with our unique data insights and advanced digital advertising technology, present an attractive proposition to advertisers. Our online advertising services primarily comprise social and others advertising and media advertising. Social and other advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Mini Programs*, *Weixin Official Accounts, QQ,* other tools such as *QQ Browser*, as well as our mobile advertising network. Media advertising relates to advertising on our video, news, music and other online media properties. The significant traffic across our various properties offers ample advertising opportunities. We have integrated our advertising platforms, strengthened our own properties as well as mobile advertising network and providing unified access to full range of our own and third-party advertising inventories, which makes us the preferred choice for advertisers. In *Weixin Moments*, we enabled performance-oriented advertisers to link their advertisements to *Weixin Mini Programs*, boosting their sales conversion. Our mobile advertising network offers customised in-app advertising solutions, ramping up in-game advertising revenue from third-party game companies and Internet service providers.

For our FinTech business, since its launch, we have been working closely with regulators and collaborating with industry partners to deliver compliant and inclusive FinTech products, while prioritizing risk management over scale. Our payment service has expanded from social to commercial activities, and from online to offline transactions. We create value for society by providing social payment services, such as red packets and bill sharing. Our commercial payment services facilitate fast and seamless experiences for both eCommerce transactions and offline consumption scenarios. We innovate to offer efficient payments solutions including QR code payment for merchants and users, as well as scan-to-buy for in-store purchase and check-out services which are widely adopted by supermarket chain stores. Our robust payment system provides high levels of payment security, service reliability and transaction speed. Our payment transaction volume has increased healthily year-on-year, driven by more daily active consumers and higher payment frequency in multiple verticals, such as retail, public services and groceries. Our commercial take rates have remained stable. We also offer wealth management services through *LiCaiTong*, our small-sized consumer loan product *WeiLiDai* through our affiliate WeBank, a licensed-bank, and insurance services through *WeSure*.

In our cloud and 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. Our cloud services are the foundation for our smart industry solutions, helping to digitally transform and empower businesses that have conventionally operated offline. *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. We invested in IaaS technology, including our customised "Star Lake" cloud server solutions and self-developed data centre technology "T-block", to enhance our cloud services' performance and cost efficiency. We have been working with partners to upgrade our PaaS solutions by increasing the adoption of security and real- time communication PaaS. In the area of SaaS products, *Tencent Meeting* has become the largest standalone app for cloud conferencing in China with total users exceeding 100 million as at 31 December 2020. *WeCom*, the enterprise version of *Weixin*, has become an integral communications tool for remote workplaces, having served over 5.5 million enterprises, better connecting them internally and to over 400 million *Weixin* users as at 31 December 2020.

In addition to growing our core businesses organically, we further broaden the types and the number of services offered to our users by enabling third-party partners to offer services and products within our products. Through strategic partnerships with category leaders, we continue to deepen engagement with our users and build our ecosystem. We, including our affiliates such as *JD.com*, *Meituan*, *Pinduoduo*, provide services across a variety of Internet categories.

As we focus our management attention and company resources on innovation within our own core products, we also make strategic investments in high-quality management teams and best-in-class companies. 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 to drive innovation and achieve a better understanding of frontier technologies, 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 with infrastructure, technology and capital support to bolster their growth. We support their independent growth and innovation, and strive to pursue synergies that add value for our users.

We continue to extend our "Connection" strategy from connecting people to people, to connecting people to content and services, and more recently to connecting industries, consumers and business partners with one another. In Consumer Internet, we identify investments which capture emerging opportunities arising from technological advancement and changes in user behavior. User value and product experience are top priorities for us. Our key areas of investment include content, games, FinTech, cloud, smart retail and education. In Industrial Internet, we seek to build close partnerships with value chain players to support evolution of numerous industries. By leveraging technologies to digitalise various sectors, such as education, healthcare, transportation and retail, we connect users with more services in a convenient and efficient manner.

Sustainability is vital to the development of our strategy and operations, and we strive to integrate social responsibility into our products and services. For details of our ESG initiatives, please see "*Business – Corporate Operations – Environmental, Social and Governance ("ESG") Initiatives.*"

OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

- Leading Apps with Massive and Highly Engaged User Base
- Market Leadership across Multiple Key Industry Verticals
- Digital Ecosystem Fulfilling Everyday Needs and Empowering our Partners
- Resilient Business Model with Diversified Revenue Streams
- Highly Cash Generative Business Model
- Strong Liquidity Position and Prudent Balance Sheet Management
- Stable Management Team with Proven Execution Track Record

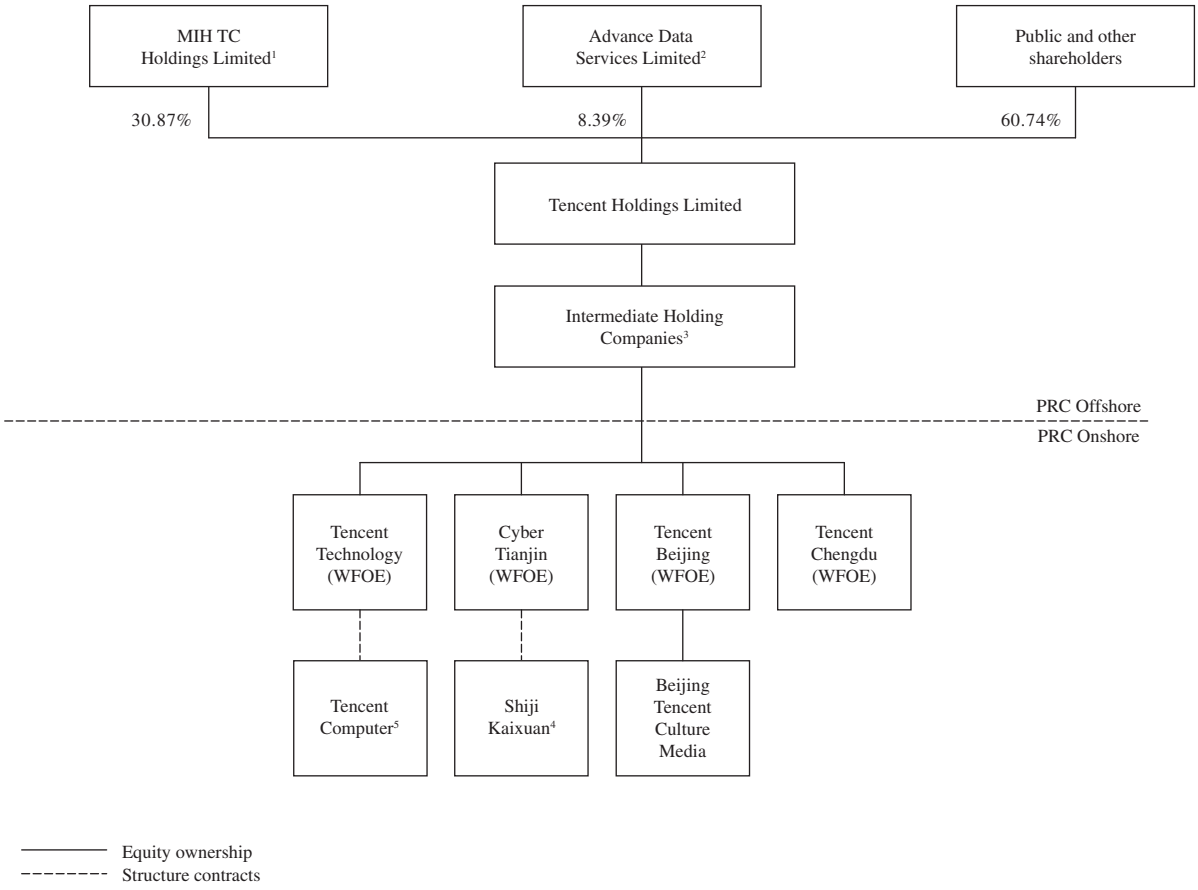
OUR STRATEGIES

We aim to connect users, businesses, and industries. Our "Connection" strategy focuses on increasing sharing, communication and overall engagement on our social products, and linking these products to a broader range of content, applications and online and offline services. To further extend our strategy, we enable our partners in different industries to better connect with consumers via our expanding, open and connected ecosystem. We believe our "Connection" strategy enables us to drive the convergence of social, content and technology trends, and to better serve consumers as well as enterprises and industries in the process. In particular, we aim to:

- Deepen Engagement and Enhance Stickiness of our Massive User Base
- Reinforce High-Quality and Differentiated Content, while Promoting Intellectual Property Protection
- Expand our Open Ecosystem Strategy that Promotes Innovation and Collaboration
- Invest in Leading Technologies including Artificial Intelligence and Cloud to Create Value
- Leverage our Comprehensive Technological Capabilities to Embrace Industrial Internet
- Pursue Partnerships to Enhance Our Business Portfolio and Grow International Presence
- Pursue Continuous Innovation to Enhance Our Services with a Focus on User Experience

OUR CORPORATE STRUCTURE

The following diagram illustrates our principal corporate and share ownership structure as at 31 December 2020.



Notes:

(1) MIH TC Holdings Limited is controlled by Naspers Limited indirectly through its non wholly-owned intermediary companies, Prosus N.V. and MIH Internet Holdings B.V. MIH TC Holdings Limited entered into a placing agreement with the placing agents on 8 April 2021 in relation to the disposal of an aggregate of 191,890,000 shares, representing approximately 2% of the total number of issued shares of the Company. Immediately upon completion of such disposal, MIH TC Holdings Limited holds 2,769,333,600 shares, representing approximately 28.86% of the total number of issued shares of the Company.

(2) Advance Data Services Limited holds 709,859,700 shares directly and 95,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. Advance Data Services Limited is wholly-owned by Mr. Ma Huateng.

(3) Intermediate Holding Companies include various Group companies established for the purpose of holding interests in various WFOEs as well as other investments of the Group.

(4) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.

(5) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.

GENERAL INFORMATION

The Company was incorporated in the British Virgin Islands on 23 November 1999 as an international business company with limited liability, with a registration number of 353466. The Company was registered by way of continuation in the Cayman Islands on 27 February 2004 as an exempted company with limited liability under the Companies Law (2016 Revision). On 16 June 2004, the Company publicly offered its shares for listing on the Main Board of the SEHK under stock code 00700. It became one of the then 43 constituents of the Hang Seng Index on 10 June 2008. Its principal place of business in the PRC is located at Tencent Binhai Towers No. 33 Haitian 2nd Road Nanshan District, Shenzhen, 518054, the PRC. Its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Our website is *www.tencent.com*. Information contained on our website does not constitute part of this Offering Circular.

SUMMARY OF THE PROGRAMME

Below is a summary of the terms and conditions, as amended, supplemented and/or replaced by the relevant Pricing Supplement, applicable to each Series of Notes issued on or after the date of this Offering Circular, which are different from the terms and conditions which, as amended, supplemented and/or replaced by the relevant Pricing Supplement, are applicable to each Series of Notes issued prior to the date of this Offering Circular. This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the "*Terms and Conditions of the Notes*" below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	Tencent Holdings Limited.
Programme Size	Up to US$30,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in "*Subscription and Sale*")) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Arrangers.....	Morgan Stanley & Co. International plc, Merrill Lynch (Asia Pacific) Limited and Deutsche Bank AG, Singapore Branch.
Dealers	Morgan Stanley & Co. International plc, Bank of China (Hong Kong) Limited, Merrill Lynch (Asia Pacific) Limited, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series of Notes.
Principal Paying Agent	Deutsche Bank AG, Hong Kong Branch.
Registrars	Deutsche Bank Luxembourg S.A. (in relation to each Series of Unrestricted Notes other than Unrestricted Notes cleared through DTC ("**DTC Unrestricted Notes**") and CMU Notes), Deutsche Bank AG, Hong Kong Branch (in relation to each Series of CMU Notes) and Deutsche Bank Trust Company Americas (in relation to each Series of DTC Notes).
Transfer Agents and Paying Agents.....	Deutsche Bank AG, Hong Kong Branch (in relation to each Series of Unrestricted Notes other than DTC Unrestricted Notes) and Deutsche Bank Trust Company Americas (in relation to each Series of DTC Notes).
CMU Lodging Agent	Deutsche Bank AG, Hong Kong Branch.
Trustee	DB Trustees (Hong Kong) Limited.

Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Clearing Systems	With respect to Notes (other than CMU Notes), Euroclear, Clearstream and/or DTC and such other clearing system as shall be agreed between the Issuer, the Trustee, the Agents and the relevant Dealer. With respect to CMU Notes, the CMU Service (each of Euroclear, Clearstream, DTC and the CMU Service, a "**Clearing System**"). See "*Clearance and Settlement*".
Form of the Notes	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. Bearer Notes will be issued only under Regulation S outside the United States to non-U.S. persons. Each Series of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement, which, in each case, may be deposited on the issue date with a common depositary for Euroclear, Clearstream or any other agreed clearance system compatible with Euroclear and Clearstream or, in respect of CMU Notes, a sub-custodian for the CMU Service. A Temporary Global Note will be exchangeable, in whole or in part, as described therein, for interests in a Permanent Global Note or if so stated in the relevant Pricing Supplement, Definitive Notes, as described under "*Form of the Notes*". A Permanent Global Note may be exchanged, in whole but not in part, for Definitive Notes only upon the occurrence of an Exchange Event as described under "*Form of the Notes*". Any interest in a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures or the time being of Euroclear, Clearstream, the CMU Service and/or any other agreed clearance system, as appropriate.

Bearer Notes will be issued in compliance with applicable U.S. tax rules. Bearer Notes will be issued in compliance with rules in substantially the same form as U.S. Treasury regulations § 1.163 — 5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**D Rules**") unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163 — 5(c)(2)(i)(C) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**C Rules**") or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstance in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstance will be referred to in the applicable Pricing Supplement. Bearer Notes that are issued in compliance with the D Rules must be initially represented by a Temporary Global Note exchangeable for a Permanent Global Note or Definitive Notes upon certification of non-U.S. beneficial ownership.

Each Series of Registered Notes, which are sold outside the United States to non-U.S. persons in reliance on Regulation S, will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Global Note Certificate (as defined in the "*Form of the Notes*"), which will be deposited on or about its issue date with a Common Depositary for, and registered in the name of a nominee of, Euroclear and Clearstream or with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream or, in respect of CMU Notes, a sub-custodian for the CMU Service operated by the HKMA. With respect to all offers or sales by a Dealer of an unsold allotment or subscription and in any case prior to the expiry of the distribution compliance period (as defined in Regulation S), beneficial interests in a Global Note Certificate of such Series may be held only through Euroclear, Clearstream, DTC for the accounts of Euroclear and Clearstream or the CMU Service. Regulation S Global Note Certificates will be exchangeable for Definitive Notes only upon the occurrence of an Exchange Event as described in "*Form of the Notes*".

Each Tranche of Registered Notes sold to QIBs in compliance with Rule 144A and subject to the restrictions described in "*Transfer Restrictions*" and "*Subscription and Sale*" and the applicable Pricing Supplement will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Rule 144A Global Note Certificate, which will be deposited on or about its issue date with a custodian for, and registered in the name of a nominee of, DTC. Restricted Global Note Certificates will be exchangeable for Definitive Notes only upon the occurrence of an Exchange Event as described in "*Form of the Notes*".

Application will be made to have Global Notes or Global Note Certificates of any Series accepted for clearance and settlement through the facilities of DTC, Euroclear, Clearstream and/or the CMU Service, as appropriate.

Currencies.....	Notes may be denominated in any currency or currencies, agreed between the Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Denomination	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Status of the Notes.....	The Notes constitute direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which will at all times (i) rank equally without any preference among themselves; (ii) rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application; (iii) rank senior in right of payment to all of the Issuer's existing and future indebtedness expressly subordinated in right of payment to the Notes; (iv) be effectively subordinated to all of the Issuer 's existing and future secured indebtedness, to the extent of the value of the assets serving as security therefor; and (v) be structurally subordinated to all existing and future indebtedness and other liabilities of the Issuer's Subsidiaries. See "*Terms and Conditions of the Notes — Status — Status of Notes*".
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Maturities	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 as amended ("**FSMA**") by the Issuer.

Redemption.....	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
Optional Redemption.....	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) as described in Condition 10(c) (*Redemption at the option of the Issuer*) and/or the Noteholders to the extent (if at all) specified in the condition 10(e) (*Redemption at the option of the Noteholders*).
Tax Redemption	Except as described in "*Optional Redemption*" above, early redemption of Notes will only be permitted for tax reasons as described in Condition 10(b) (*Redemption for tax reasons*).
Triggering Event Offer.....	Upon the occurrence of certain changes in or amendments to PRC laws and regulations as described in Condition 10(f) (*Redemption for Triggering Event*), we must (subject to certain exceptions) make an offer to repurchase all or, at the Noteholder's option, any part of such Noteholder's Notes at a purchase price equal to the Early Redemption Amount (Triggering Event), plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.
Interest.....	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Interest — Floating Rate Notes....	If LIBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes issued pursuant to the Programme which reference LIBOR will be determined for the relevant period by the fallback provisions applicable to such Notes as described in the relevant pricing supplement for such Notes. See "*Risk Factors — Risks Relating to the Notes — Future discontinuance of LIBOR may adversely affect the value of Floating Rate Notes which reference LIBOR*".
Covenants	The Notes will contain certain covenants including Condition 5(a) (*Negative Pledge*), Condition 5(b) (*Consolidation, Merger and Sale of Assets*) and Condition 5(c) (*Reports*). See the relevant Conditions under "*Terms and Conditions of the Notes*" for more details.

Withholding Tax	All payments in respect of Notes will be made free and clear of withholding taxes of the Cayman Islands and the PRC, unless the withholding is required by law. In that event, the Issuer will (subject to certain exceptions as described in Condition 13 (*Taxation*)) pay such Additional Amounts (as defined under "*Terms and Conditions of the Notes*") as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Listing and Trading	The Programme is listed on the SEHK by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular. Notes listed on the SEHK will be traded on the SEHK in a board lot size of at least HK$500,000 (or its equivalent in other currencies). However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
Governing Law	The Notes, the Agency Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Rating	Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. ("**S&P**") has assigned a rating of "A+" to the Programme, Moody's Investors Service, Inc. ("**Moody's**") has assigned a rating of "A1" to the Programme and Fitch Ratings Ltd. ("**Fitch**") has assigned a rating of "A+" to the Programme. The rating is only correct as at the date of the Offering Circular. Notes issued under the Programme may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency. Each Series of Notes may be assigned ratings by any of S&P, Moody's and/or Fitch, as specified in the applicable Pricing Supplement.

Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering materials in the United States of America, the European Economic Area, the Netherlands, the United Kingdom, the Mainland of China, Hong Kong, Japan, Singapore, Cayman Islands and Canada, see "*Subscription and Sale*" below. For the purposes of Regulation S, Category 2 selling restrictions will apply unless otherwise indicated in the relevant Pricing Supplement. In connection with the offering and sale of a particular Series of Notes, additional restrictions may be imposed which will be set out in the applicable Pricing Supplement. Bearer Notes will be issued in compliance with the D Rules unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with the C Rules or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstance in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstance will be referred to in the applicable Pricing Supplement; Bearer Notes with a term of 365 days or less (taking into account unilateral rights to extend or rollover) may be issued other than in compliance with the D Rules or the C Rules and will, in such case, be referred to in the applicable Pricing Supplement as a transaction to which the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**") is not applicable.
Initial Delivery of Notes	On or before the issue date for each Series, the Global Note representing Bearer Notes or the Global Note Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the CMU Service or any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Principal Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a sub custodian for, such clearing systems.

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

The summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 have been derived from the Company's audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020 included elsewhere in this Offering Circular. Certain comparative information for the year ended 31 December 2018 has been restated in the Group's audited consolidated financial statements as at and for the year ended 31 December 2019 to conform with the new presentation of the Group's audited consolidated financial statements as at and for the year ended 31 December 2019. Unless otherwise stated, the summary consolidated financial information as at and for the year ended 31 December 2018 included in the Offering Circular has been derived from the Group's audited consolidated financial statements as at and for the year ended 31 December 2019. Please refer to Notes 2.2 and 5 to the Company's audited consolidated financial statements as at and for the year ended 31 December 2019 for more details.

In preparing the audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, the Company has adopted the new accounting standard as and when it came into effect and has 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 2019 and 2020 may not be comparable with the financial statements for the previous years, including the audited consolidated financial statements as at and for the year ended 31 December 2018. For the impact on adoption of the new accounting standard, please refer to Note 2.2 to the Company's audited consolidated financial statements as at and for the year ended 31 December 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 2019 and 2020 may not be comparable with the financial statements for previous years*".

The summary financial data below should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the audited consolidated financial statements included elsewhere in this Offering Circular.

SUMMARY CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

	Year ended 31 December			
	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Revenues:				
VAS	176,646	199,991	264,212	40,492
Online Advertising	58,079	68,377	82,271	12,609
FinTech and Business Services[(1)]	73,138	101,355	128,086	19,630
Others[(1)]	4,831	7,566	7,495	1,149
Total revenues	**312,694**	**377,289**	**482,064**	**73,880**
Cost of revenues	(170,574)	(209,756)	(260,532)	(39,928)
Gross profit	**142,120**	**167,533**	**221,532**	**33,952**
Interest income	4,569	6,314	6,957	1,066
Other gains, net	16,714	19,689	57,131	8,756
Selling and marketing expenses	(24,233)	(21,396)	(33,758)	(5,174)
General and administrative expenses	(41,522)	(53,446)	(67,625)	(10,364)

	Year ended 31 December			
	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Operating profit	**97,648**	**118,694**	**184,237**	**28,236**
Finance costs, net	(4,669)	(7,613)	(7,887)	(1,209)
Share of profit/(loss) of associates and joint ventures, net	1,487	(1,681)	3,672	562
Profit before income tax	**94,466**	**109,400**	**180,022**	**27,589**
Income tax expense	(14,482)	(13,512)	(19,897)	(3,049)
Profit for the year	**79,984**	**95,888**	**160,125**	**24,540**

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.

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018, 2019 AND 2020

	As at 31 December			
	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Cash and cash equivalents	97,814	132,991	152,798	23,417
Term deposits	62,918	46,911	68,487	10,496
Total current assets	**217,080**	**253,968**	**317,647**	**48,681**
Term deposits	–	19,000	31,681	4,855
Total non-current assets	**506,441**	**700,018**	**1,015,778**	**155,675**
Total assets	**723,521**	**953,986**	**1,333,425**	**204,356**
Borrowings	26,834	22,695	14,242	2,183
Notes payable	13,720	10,534	–	–
Total current liabilities	**202,435**	**240,156**	**269,079**	**41,238**
Borrowings	87,437	104,257	112,145	17,187
Notes payable	51,298	83,327	122,057	18,706
Total non-current liabilities	**164,879**	**225,006**	**286,303**	**43,878**
Total liabilities	**367,314**	**465,162**	**555,382**	**85,116**
Total equity	**356,207**	**488,824**	**778,043**	**119,240**
Total liabilities and equity	**723,521**	**953,986**	**1,333,425**	**204,356**

SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

	Year ended 31 December			
	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Net cash flows generated from operating activities[3]	110,936	148,590	194,119	29,750
Net cash flows used in investing activities[1]	(151,913)	(116,170)	(181,955)	(27,886)
Net cash flows generated from financing activities[2][3]	30,887	1,672	13,647	2,091
Net (decrease)/increase in cash and cash equivalents	(10,090)	34,092	25,811	3,955
Cash and cash equivalents at beginning of the year	105,697	97,814	132,991	20,382
Exchange gains/(losses) on cash and cash equivalents	2,207	1,085	(6,004)	(920)
Cash and cash equivalents at end of the year	97,814	132,991	152,798	23,417

Notes:

(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 RMB23,092 million, RMB28,331 million and RMB40,961 million (US$6,278 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

(2) Includes, among others, dividends paid to our shareholders and non-controlling interest owners, which amounted to RMB7,396 million, RMB9,453 million and RMB11,418 million (US$1,750 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

(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.

OTHER FINANCIAL DATA

	Year ended 31 December			
	2018	2019	2020	
	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(US$ in millions, except for %)
EBITDA[(1)]	110,404	137,268	170,680	26,158
Adjusted EBITDA[(1)]	118,273	147,395	183,314	28,094
Adjusted EBITDA margin[(2)]	38%	39%	38%	38%
Net (debt)/cash[(3)]	(12,170)	(15,552)	11,063	1,695

	Year ended 31 December			
	2018	2019	2020	
	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	(US$ in millions, except for ratios)
Adjusted EBITDA[(1)]	118,273	147,395	183,314	28,094
Interest and related expenses	4,898	7,690	7,449	1,142
Ratios:				
Adjusted EBITDA[(1)] to interest and related expenses	24x	19x	25x	25x
Total debts[(4)] to adjusted EBITDA[(1)]	1.52x	1.50x	1.36x	1.36x

Notes:

(1) EBITDA for any year 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. Other gains/losses, net consist primarily 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, goodwill and other intangible assets arising from acquisitions, subsidies and tax rebates, dividends income, donations and provision/reversal on accounts receivable and other receivables. Adjusted EBITDA is calculated as EBITDA plus equity-settled share-based compensation expenses. EBITDA and Adjusted EBITDA are not standard measures under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to cash flows, net income or any other measure of performance or as indicators of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA and Adjusted EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA and Adjusted EBITDA because we believe they are a useful supplement to cash flows data as a measure of our performance and our ability to generate cash flows from operations to cover debt service and taxes. EBITDA and Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA or Adjusted EBITDA to the EBITDA or Adjusted EBITDA presented by other companies because not all companies use the same definition.

(2) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.

(3) Net (debt)/cash represents year-end balance and is calculated as cash and cash equivalents, plus term deposits and others, minus borrowings and notes payable.

(4) Total debts consist of borrowings and notes payable.

The following table reconciles our operating profit under IFRS to our EBITDA and Adjusted EBITDA for the years indicated.

	Year ended 31 December			
	2018	2019	2020	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Operating profit	97,648	118,694	184,237	28,236
Adjustments:				
Interest income	(4,569)	(6,314)	(6,957)	(1,066)
Other gains, net	(16,714)	(19,689)	(57,131)	(8,756)
Depreciation of property, plant and equipment and investment properties	8,423	12,574	17,685	2,710
Depreciation of right-of-use assets	–	3,049	3,773	578
Amortisation of intangible assets	25,616	28,954	29,073	4,456
EBITDA	**110,404**	**137,268**	**170,680**	**26,158**
Equity-settled share-based compensation	7,869	10,127	12,634	1,936
Adjusted EBITDA	**118,273**	**147,395**	**183,314**	**28,094**

OPERATING DATA

The following data sets forth certain operating statistics relating to our Internet services and VAS as at the dates presented:

	As at 31 December		
	2018	2019	2020
	(in million)	(in million)	(in million)
Combined MAU of *Weixin* and *WeChat*[(1)]	1,097.6	1,164.8	1,225.0
Smart device MAU of *QQ*[(2)]	699.8	647.0	594.9
Fee-based VAS registered subscriptions	160.3	180.1	219.5

Notes:

(1) Combined MAU of *Weixin* and *WeChat* figures denote the total number of user accounts that logged in and sent a message, or conducted an activity in *Moments*, games, etc. during the last calendar month prior to the relevant date.

(2) Smart device MAU of *QQ* figures denote the total number of *QQ* MAU that logged in via applications on smart devices (iOS, Android) and sent a message, or conducted an activity in *Moments*, games, etc. during the last calendar month prior to the relevant date.

Any investment in the Notes involves a high degree of risk. You should consider carefully the following information about the risks described below, together with the other information contained in this Offering Circular, before making an investment decision. If any of the following risks actually occurs, our business, financial condition, results of operations or prospects could be materially and adversely affected. Additional risks or uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. There can be no assurance that any of the events discussed in the risk factors below will not occur and if such events do occur, you may lose all or part of your original investment in the Notes.

Risks Relating to Our Business

We operate in a very competitive market. If we fail to compete effectively, we may lose users to competitors and our business, future results of operations and prospects could be materially and adversely affected.

We face significant competition in almost every aspect of our business, particularly from companies that provide Internet communication tools, social networking, online games, social media, digital entertainment, online advertising, FinTech, cloud and enterprise services. We compete directly with other major Chinese Internet companies to provide comprehensive Internet and mobile VAS to customers. In particular, the online game market in China is increasingly competitive. We expect more companies to enter into this sector and a wider range of online games to be introduced into the Chinese market. Competition from other online game operators, both based in China as well as overseas, is likely to increase in the future and may make it more challenging for us to retain existing users and attract new users. We also face increasing competition in our community services, where we compete with both China-based and global operators (including international operators seeking to enter the Chinese market) to attract users that may in turn not subscribe for our premium services or other fee-based products. In addition, we face competition from international competitors that may establish joint venture companies with domestic Chinese companies to provide services based on the foreign investors' technology and experience developed in their home markets. We also compete with other companies in FinTech, cloud services and other enterprise-facing services. Some of our competitors have widely recognised brand names in China and may have greater financial resources than we do. Moreover, present or future competitors may offer services and products that provide more favourable technology, performance and pricing than we can provide, with the result that their services and products could achieve greater market acceptance than our services and products. Our business also generally competes with other forms of entertainment, such as television and movies.

Furthermore, some of our competitors may adopt various unilateral measures to target our business, such as by preventing users of their products from using some or all of our products at the same time (for example, by programming their products in a way that disables the use of our products) or by attacking our services with spam or other virus-like programmes. Any of these measures taken by our competitors could affect our number of users, reduce our market shares, and negatively affect our brand and reputation.

If we are unable to compete effectively in our business, it could decrease user numbers and user traffic over our services, and lead to increased spending for marketing and development, any of which could materially and adversely affect our business, future results of operations and prospects.

If we fail to keep up with the technological developments and users' changing requirements, we may not be able to increase the size and level of engagement of our user base and our business, future results of operations and prospects could be materially and adversely affected.

Our business and prospects will depend on our ability to respond to rapidly changing technologies, adapt our services to evolving industry standards and improve the performance and reliability of our services. Our failure to adapt to such changes could harm our business. In addition, changes in user behavior resulting from technological developments may also adversely affect us. If we are not able to successfully monetise this increasing rate of mobile usage, our business, results of operations and growth prospects may be materially and adversely affected.

If we fail to develop services and products that are compatible with current and future mobile devices, or if the services and products we develop are not widely accepted and used by mobile device users, we may not be able to increase our mobile user base. If we fail to anticipate and meet the needs of our users, the size, engagement and loyalty level of our user base may decrease, which may render our services less attractive to advertisers and users. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or integrate our products, services or technologies. If we fail to anticipate and adapt to material technological changes, our market share could suffer, which in turn could materially and adversely affect our business, future results of operations and prospects.

We operate in a rapidly evolving environment and our existing offerings may become less popular as we launch new services and products or they may become incompatible with new technologies and devices.

We operate in a dynamic and evolving industry with the rapid emergence of new technologies and new services and products. To remain competitive, we must introduce new services and products to diversify our portfolio, adapt to new technologies, appeal to changing consumer trends and preferences, and generate additional revenue. We may continue to exit some legacy business areas in order to focus on the key drivers of our growth. Further, some of our new services and products may attract users from our existing offerings. Some of our existing services and products may also become incompatible with emerging technologies and new devices. If we are unable to continue to launch new services and products that can offset the loss of popularity of our maturing services and products, our market share could erode, which in turn could materially and adversely affect our financial condition and results of operations.

If we fail to maintain and enhance our brand recognition, or if we incur excessive expenses in this effort, our business, future results of operations and prospects could be materially and adversely affected.

It is critical for us to maintain and develop our brands so as to effectively expand our user base, maintain and increase our business partnerships, and grow our revenue. Well-recognised brands are critical to increasing the number and engagement of our users and, in turn, enhancing our attractiveness to advertisers. Since we operate in a highly competitive market, maintaining and enhancing our brands directly affects our ability to maintain our market position. Our main competitors have established brands and are continuing to take steps to increase their brand recognition. We must also continue to maintain and enhance the recognition and value of our brands in this highly competitive market. In order to attract and retain users, we may need to substantially increase our expenditures for creating and maintaining brand loyalty. As a result, our sales and marketing expenses may increase significantly, which may impact our profitability. In addition, due to intense competition in our industry, we may be the target of incomplete, inaccurate and false statements about our company and our services that could damage our reputation and brand and materially deter consumers from making purchases on our marketplaces. Our ability to respond to our competitors' misleading and aggressive marketing strategies may be limited by legal prohibitions on permissible public communications by us during certain periods. We may incur additional expenditures in responding to these misleading statements.

Our success in promoting and enhancing our brands, as well as our ability to remain competitive, will also depend on our success in offering high-quality content, features and functionality. In addition, the use of words or branding similar to our brands by third parties in other industries could dilute the brand recognition for our brands. If we are unable to maintain and enhance our brand recognition, our business, future results of operations and prospects could be materially and adversely affected.

If telecommunications operators or app store operators do not provide continuous or adequate service, our business, future results of operations and prospects could be materially and adversely affected.

We rely on telecommunications operators and app store operators in various ways. We use their networks and gateways to deliver our services and products, their billing systems to charge our users through their mobile phone bills, and their proxy services to collect payments from subscribers.

We have limited control over the usage fees that telecommunications operators and or app store operators charge their end customers and we have limited access to alternative networks to deliver our services and products or collect fees from our mobile phone users. If telecommunications operators' usage fees or other charges or app store operators' charges to their end customers increase, our user traffic may reduce. Further, if our relationships with telecommunications operators or app store operators are terminated, curtailed or renewed on terms that are unfavorable to us, including increases in service fees for using their networks, our ability to deliver services and products to users may be affected, which could have a material and adverse effect on our business, future results of operations and prospects.

Significant changes in the policies or guidelines of Chinese telecommunications operators with respect to services provided by us could result in lower revenue or additional costs for us and our business, future results of operations and prospects could be materially and adversely affected.

From time to time, Chinese telecommunications operators issue policy or guideline changes stating their preferences for certain actions to be taken by service providers using their networks. Due to our reliance on these telecommunications operators, a significant change in their policies or guidelines could cause our revenue to decrease or operating costs to increase. For example, on 30 November 2009, *China Mobile* implemented a series of measures targeted at eliminating offensive or unauthorised content, including pornographic content, on China-based WAP sites. As a result, *China Mobile* suspended billing for their customers for all WAP services, including those services that do not contain offensive or unauthorised content. On 16 April 2010, *China Mobile* implemented a policy requiring service providers to implement reminders for charges for VAS and subscription services together with two-step confirmation, and in early 2011 *China Mobile* implemented a new policy designed to enhance user ability to query and cancel VAS, both of which have negatively impacted our VAS revenue. In July 2013, MIIT promulgated the Regulations on Protection of Personal Information of Telecommunications and Internet Users (電信和互聯網用戶個人信息保護規定) (the "**Regulations on Network Information Protection**"), effective 1 September 2013, to enhance and enforce legal protection over user information security and privacy on the Internet. The Regulations on Network Information Protection require Internet operators to take various measures to ensure the privacy and confidentiality of users' information. Furthermore, in January 2015, SAIC promulgated the Measures for Punishments against Infringements on Consumer Rights and Interests (侵害消費者權益行為處罰辦法), effective on 15 March 2015, as further amended on 23 October 2020, expanding the categories of information that are protected as consumer personal information. In addition, on 7 November 2016, the Standing Committee of the National People's Congress passed the Cyber Security Law of the PRC (網絡安全法) ("**Cyber Security Law**") which took effect on 1 June 2017, further requiring the internet operators to take actions to prevent the network from interference, damage, unauthorised access, data leaks, theft or falsification according to the tiered system for cybersecurity protections.

We cannot assure you that Chinese telecommunications operators will not introduce additional requirements or adopt other policies which may require significant changes in the way we promote and sell our VAS, any of which could have a material and adverse effect on our business, future results of operations and prospects.

We face uncertainties regarding the growth of the online game industry and continuous market acceptance of our online games and in-game items.

We have derived a significant portion of our revenue from the online game industry, which is rapidly evolving. Revenue from online games under VAS business constituted 33%, 30% and 32% of our total revenues for the years ended 31 December 2018, 2019 and 2020 respectively. The growth of the online game industry is subject to a high degree of uncertainty. Our future results of operations associated with this industry will depend on numerous factors, including:

- Internet infrastructure, growth of personal computing, Internet and broadband penetration in China;
- whether the Chinese online game industry continues to grow and the rate of any such growth;
- laws, rules, regulations, policies and approvals affecting the online game industry, including those affecting Internet cafes in China, where a substantial portion of our game players access online games, as well as regulatory action (or inaction) limiting or prohibiting our ability to license, market or release new online games;
- general economic conditions, particularly economic conditions that impact the level of discretionary consumer spending;
- the availability and popularity of other forms of entertainment;
- changes in consumer demographics, public tastes and preferences;
- our ability to develop, license or acquire new online games and related products to meet market demand and user preferences;
- our ability to develop, license or acquire smart phone games to adapt to emerging mobile Internet trends;
- the popularity and price of new online games and in-game items that we and our competitors launch and distribute; and
- our ability to timely upgrade and improve our existing games to extend their lifespans and to maintain their competitive positions in the online game market.

Due to these challenges and uncertainties, we cannot assure you that our online game business will continue to grow at the rates it achieved in the past. Our failure to successfully develop this business could have a material and adverse effect on our results of operations and prospects.

Before the 2018 Institutional Reform Plan, the publication of each online game required approval from the SAPPRFT. After the 2018 Institutional Reform Plan, SAPPRFT was dismantled, and the responsibility of the approval of publication of online games was transferred to the National Administration of Press and Publication ("**NAPP**"). We have been since then and will in the future apply with NAPP for the approvals for publishing our games. For the online games we jointly operate with third parties, we also require them to obtain requisite approvals from the NAPP. The regulatory bodies of the online game industry in the PRC suspended the registration of online games and issuance of publication numbers for publication of online games for most of 2018, resulting in an estimated backlog of 8,000 online video games applications. However, there is no assurance that a similar cessation in online video games approval will not occur again in the future, and we may face similar or other regulatory hurdles in obtaining approvals for our new online games in the future. Furthermore, in December 2018, the Online Games Ethics Committee of the PRC was established, which carries out moral assessment of online games and related services that may cause or have caused moral disputes and social opinions and provide reference for the decision-making of the regulatory bodies of the online game industry. Consequently, there is no assurance that we will continue to obtain approval for our new online games in a timely fashion or at all, and any failure, delay or other limitations in obtaining regulatory approvals for our new online games could materially and adversely affect our business, revenue and profits and results of operations.

If we are unable to consistently develop, acquire, co-develop or licence additional successful online games, our business, future results of operations and prospects could be materially and adversely affected.

In order to maintain our long-term profitability and operational success, we must continue to develop, acquire, co-develop or licence new online games that are attractive to users before our existing online games reach the end of their commercial lifespans. This requires us to maintain and grow our in-house online game development capability to anticipate changing consumer tastes and preferences, adopt new technologies, attract, retain and motivate talented online game developers and effectively execute online game development plans. There is no assurance that we can successfully maintain or develop our in-house online game development capability in such manner. In addition, games we develop for one market may not always be successful in other markets.

We may also acquire online game development and operational companies from time to time. The selection of acquisitions depends on the availability and commercial potential of suitable acquisition targets and may be subject to governmental approvals. Future acquisitions may also expose us to potential risks, including risks associated with the assimilation of new operations, technologies and personnel, unforeseen or hidden liabilities and potential loss of, or harm to, our relationships with customers, licensors and other suppliers as a result of integration of new businesses.

We may also enter into co-development arrangements with key players in the game industry from time to time. These arrangements depend on the availability of suitable game titles and co-development partners and our ability to implement the co-development on planned schedules.

Licensing successful online games has been, and will continue to be, an important part of our strategy to provide market leading VAS. The success of such licensing arrangements depends on our ability to identify games that will appeal to users and to obtain government approvals required for the licensing and operation of such games. However, it is difficult to determine which online games will appeal to users. In addition, many of the games that are licenced from overseas developers were not designed specifically for the Chinese online game market, further complicating the task of identifying or implementing games that will appeal to users. Moreover, due to increased competition among online game operators in China, upfront licence fees for licenced games have increased and most licensors are demanding guaranteed minimum royalty payments. Increased competition or potential commercial disputes with or among our overseas licensors of our existing or future online games may have an adverse impact on our online games business.

There is no assurance that the online games which we have developed, acquired, co-developed or licenced from third parties will be attractive to users and will always comply with relevant content restrictions such as government regulations. If we are not able to mitigate the potential adverse impact as a result of competition or disputes among our overseas licensors and consistently develop, acquire, co-develop or licence online games with continuing appeal to users, our business, future results of operations and prospects could be materially and adversely affected.

We may not be successful in implementing our growth strategies or sustaining our historical growth rate.

We are pursuing a number of growth strategies, including expanding our user base and increasing user engagement, further monetising our user base and user traffic, pursuing an open platform strategy and capturing the emerging mobile Internet trend. We are also pursuing opportunities for growth through acquisitions and investments. Although we have achieved significant growth in the past, we cannot be assured that this level of significant growth will be sustainable or achieved at all in the future. For example, future saturation in the market for online services could hamper our ability to continue to grow our user base. As we expand into new markets, we may face challenges from local incumbents and have difficulty gaining consumer mindshare. Also, as we expand into online-to-offline payments and other new lines of business, such as FinTech and cloud services, we may become subject to new technical challenges and regulatory requirements that could restrict our ability to effectively grow these new business lines.

As we enter into new business segments, we may not be able to maintain our historical margins. Further, we cannot assure you whether all or any of these strategies will be successful. If we are unable to implement our growth strategies, our competitiveness may be materially and adversely affected, which would have a material and adverse effect on our results of operations and prospects.

Our past and future acquisitions and investments could have a material and adverse effect on our ability to manage our business.

As part of our strategy to further expand our business, we may continue to acquire or make investments in additional products, assets, technologies or businesses that are complementary to our existing business if and when appropriate opportunities arise. Future acquisitions and investments as well as the subsequent integration of new products, assets, technologies and businesses into our existing business would require attention from our management and result in diversion of resources from our existing business. The areas where we face risks include:

- diversion of management time and focus from operating our business to address challenges in relation to acquisition integration and business collaboration;
- implementation or remediation of controls, procedures and policies at the acquired company;
- integration of the acquired company's accounting, human resource and other administrative systems and coordination of product, engineering, and sales and marketing functions;
- transition of operations, users and customers onto our existing services;
- cultural challenges associated with integrating employees from the acquired company into our organisation, and retention of employees from the businesses we acquire;
- liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities;
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties;
- the ability of SAMR to require the subsequent unwinding of completed M&A transactions or impose significant fines in respect of such transactions;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries; and
- failure to successfully further develop the acquired technology.

Also, acquired products, assets, technologies or businesses and investments may not yield the results that we anticipate. In addition, acquisitions and investments could result in the use of substantial amounts of cash, significant amortisation expenses related to identifiable intangible assets and exposure to potential impairment or write-offs of such investments, the relevant goodwill and/or identified intangible assets or potential unknown liabilities of any such acquired business. Moreover, the costs of identifying and consummating acquisitions and investments may be significant. In addition to possible regulatory or shareholders' approval in Hong Kong, we may also have to obtain approval from the relevant government authorities for the acquisitions and investments and comply with any applicable laws and regulations, which could result in increased costs and delays. Further, the value of our investments is subject to market and non-market fluctuations which are attributable to factors beyond our control.

Our failure to properly and timely address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realise the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

Future acquisitions or investments could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortisation expenses, write-offs of goodwill, or even provisions for prolonged impairment in value, any of which could have a material and adverse effect on our business, future results of operations and prospects.

The U.S. government has issued certain Executive Orders that may have negative impacts on our business, and we cannot assure you that the U.S. government will not issue similar Executive Orders in the future.

An Executive Order, entitled "Securing the Information and Communications Technology and Services Supply Chain" ("**Executive Order 13873**") was issued on 15 May 2019. Executive Order 13873 authorizes the U.S. Secretary of Commerce to prohibit or condition information and communication technology transactions with entities under the jurisdiction of a "foreign adversary", as that term may be defined by the U.S. Secretary of Commerce. The U.S. Department of Commerce promulgated regulations to implement provisions of the Executive Order 13873, with its interim final rule effective as of 22 March 2021 (the rule is effective as of that date, however the U.S. Department of Commerce may revise and issue a different final rule). The rule includes the processes and procedures that the U.S. Secretary of Commerce will use to identify, assess and address certain transactions which the U.S. Secretary of Commerce may prohibit or make subject to certain mitigation measures under Executive Order 13873. Given the broad scope of the Executive Order 13873 and the U.S. Department of Commerce's implementing regulations, certain transactions conducted by us may be adversely impacted.

An Executive Order entitled "Addressing the Threat Posed by WeChat, and Taking Additional Steps To Address the National Emergency with Respect to the Information and Communications Technology and Services Supply Chain" ("**Executive Order 13943**") was issued on 6 August 2020. Pursuant to the Executive Order 13943 and an implementing identification issued on 18 September 2020, the U.S. Secretary of Commerce identified certain transactions related to *WeChat's* operation in the United States that would be prohibited, effective as of 20 September 2020. The U.S. Department of Commerce imposed a number of limitations and prohibitions related to the use of *WeChat* within the national borders of the United States, including prohibiting *WeChat* to be distributed or maintained through online mobile application stores in the United States, and the provision of certain technical services (e.g., content delivery service, hosting and peering services) to enable the functioning or optimisation of *WeChat* in the United States. However, on 19 September 2020, the U.S. District Court of the Northern District of California issued a preliminary injunction against the implementation of such restrictions. In February 2021, the Biden Administration requested the court, as well as an appellate court in which the government had taken appeal, to stay the proceedings pending the completion of a broader U.S. Department of Commerce review. The courts granted these requests.

On 5 January 2021, another Executive Order entitled "Addressing the Threat Posed by Applications and Other Software Developed or Controlled by Chinese Companies" ("**Executive Order 13971**") was issued, authorizing the U.S. Secretary of Commerce to prohibit transactions by any person, or with respect to any property, subject to the jurisdiction of the United States, with persons that develop or control certain Chinese connected software applications or with their subsidiaries. The Chinese connected software applications identified in the Executive Order 13971 included *QQ, QQ Wallet* and *Wechat Pay*. However, the U.S. Secretary of Commerce has not, to date, identified prohibited transactions with respect to these identified apps.

In addition, the Executive Order issued on 19 January 2021 entitled "Taking Additional Steps To Address the National Emergency With Respect to Significant Malicious Cyber-Enabled Activities" ("**Executive Order 13984**") required the U.S. Secretary of Commerce to propose regulations to require U.S. infrastructure as a service ("**IaaS**") provider to verify the identity of any foreign person that obtains an

account. Executive Order 13984 would also require that certain special measures be adopted if reasonable grounds (as described in the order) exist for the U.S. IaaS provider to conclude that a foreign jurisdiction has a significant number of foreign persons offering U.S. IaaS products that are used for malicious cyber-enabled activities or otherwise has a significant number of foreign persons directly obtaining U.S. IaaS products for use in malicious cyber-enabled activities. To date, the U.S Secretary of Commerce has not promulgated regulations to implement the Executive Order 13984 and it is currently uncertain if the Biden Administration will do so. If implemented, our cloud services and transactions with U.S. IaaS providers may be adversely impacted.

Although, to date, none of our products, services and transactions have become prohibited as a result of the implementation of any of the above Executive Orders, there can be no assurance that these Executive Orders would not have adverse effect on the operation of our business in the future, particularly if these Executive Orders are specifically implemented against our products or services in the United States. There is also no assurance that the United States will not issue additional Executive Orders or other laws or regulations that may adversely affect our business and financial conditions.

Our growth may not be sustainable due to limitations in our infrastructure or resources and any expansion or upgrades of our infrastructure or resources may require significant costs.

We have limited operational, administrative and financial resources and these resources may be inadequate to sustain the growth we want to achieve. As our user base increases and as we diversify into other business segments, we will need to increase our investment in our technological infrastructure and facilities; improve existing operational and financial systems, procedures and controls; and expand, train and manage our growing employee base. Further, our management will be required to maintain, and expand, our relationships with telecommunications operators, Internet and other online service providers, content providers, regulators and other third parties necessary to the growth of our business. Almost all Internet and mobile access in China is maintained through state-owned telecommunications operators under the control and supervision of MIIT, and we use a limited number of telecommunications operators to provide us with data communications capacity through local telecommunications lines and Internet data centers to host our servers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our websites and increasing user levels on our products. We cannot assure you that the Internet infrastructure and the fixed and mobile telecommunications networks in all areas in China will be able to support the demands associated with the continued growth of our Internet usage. If we are unable to manage our growth and expansion effectively, including through investments in our internal systems and structures, the quality of our service could deteriorate and our business, future results of operations and prospects could be materially and adversely affected.

We rely on a number of third parties to provide us with content, various services and technologies. Any disruption in the provision of this third-party content or these services or technologies could materially and adversely affect our business, future results of operations and prospects.

One of our principal strengths is our ability to create a distinct online community through our services and content. We rely on a number of third parties to create traffic and provide content in order to make our products and services more attractive to consumers and advertisers, through which we may sustain and grow our online community. Third parties that provide content for our websites and services include both commercial content providers with which we have contractual relationships and our registered community members who post articles and other content on our products. If these third parties fail to develop and maintain high-quality content, our websites or other open platform offerings could lose users and advertisers. Most of our contractual arrangements with third-party content providers are not exclusive and are short-term, or may be terminated at any time for any reason by either party. Recently, many content providers have increased the fees they charge us for their content. This trend could increase our costs and operating expenses and could adversely affect our ability to obtain content at an economically acceptable cost. There can be no assurance that our existing relationships with third-party content providers, if maintained, will result in sustainable business partnerships, successful service offerings, an acceptable level of traffic on our websites or revenue, or will not be terminated. Also, a majority of this third-party

content is also available from other sources or may be provided to other Internet, SNS or other social media companies. If other Internet, SNS or other social media companies present the same or similar content in a superior manner, this could reduce our visitor traffic, which could have a material and adverse effect on our business, future results of operations and prospects.

In addition, our business also depends upon services provided by, and relationships with, third-party service and technology providers such as telecommunications operators, advertising agencies that represent advertisers, game developers, online payment vendors and other content providers. We generally do not have long-term cooperation agreements or exclusive arrangements with these third parties and they may elect to direct business opportunities to our competitors. With respect to telecommunications operators and online game developers, we have revenue sharing arrangements that require periodic renewals. If we fail to retain and enhance our business relationships with these third parties, or renew our business arrangements with these third parties on the same or more favorable terms to us, our business, future results of operations and prospects may be materially and adversely affected.

We face uncertainties regarding the legal liability for providing third-party services, products, content and applications on our platforms.

One of our strategies is to pursue an open strategy that focuses on mobile communications, online games, cloud and enterprise services. A number of third-party services, products, content and applications have been, and will continue to be, provided on or through our platforms through commercial cooperation agreements we entered into with third parties. It is also possible that third parties may engage in illegal, obscene or incendiary conversations or activities that may be deemed unlawful under PRC laws and regulations on our platform. In addition, our users may generate and display content on our platforms which may involve illegal, obscene or incendiary conversations or activities. If any content on our platform is deemed illegal, obscene or incendiary, or if appropriate licences and third-party consents of such services, products, content and applications as required have not been obtained, claims may be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, other unlawful activities or other theories and claims based on the nature and content of such objectionable information. Although such commercial agreements provide general contractual provisions to limit or exclude our legal liabilities, we cannot assure you that we may not incur any liability caused by providing these third-party services, products, content or applications on our platforms if they are found to be in breach of the relevant rules and regulations in China or any intellectual property rights, especially in light of the fact that the current PRC laws remain uncertain regarding our liability in connection with any third-party content and applications. The Regulations on Network Information Protection require Internet operators to supervise and manage these third-party services with respect to collection and use of user information so as to ensure information security and privacy. The Civil Code of the PRC (民法典), or the Civil Code, promulgated in 2020 and replacing certain laws including the Tort Law of the PRC (侵權責任法), has further elaborated the circumstances where Internet operators may be found liable for the infringement conducted by third parties using network services provided by the Internet operators. However, the allocation of liabilities between Internet operators and such third-party service providers is subject to legal uncertainty. Any regulatory actions or liability incurred by these third parties may disrupt our business and cause damage to our reputation.

We have been and may continue to be exposed to liability for copyright or trademark infringement and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through or published or posted on our platform. Defense of any such actions could be costly and involve significant time and attention of our management and other resources. In addition, if we are found to have not adequately monitored the content on our platform, PRC authorities may impose legal and administrative sanctions on us, including, in serious cases, suspending or revoking the licences necessary to operate our platform, which could have a material and adverse effect on our business, future results of operations and prospects.

We may face additional risks as we expand our business to new international markets.

From time to time we evaluate opportunities to expand our business, services and product offerings to markets outside China. Expanding our business, services and product offerings into new overseas markets may expose us to risks that are additional to or different from those that we currently face, including:

- difficulties in identifying and maintaining good relationships with business counterparties or partners;
- uncertainties in developing products and services catering to overseas markets and in renewing the licence agreements with licencees upon their expiration;
- our ability to maintain our brand name and the reputation of our products and services in situations where our products and services are operated by licencees or partners in the overseas markets pursuant to their own standards;
- difficulties in staffing and managing foreign operations;
- difficulties and costs associated with protecting and enforcing our intellectual property rights overseas;
- difficulties and costs relating to compliance with the different commercial and legal requirements of the overseas markets, such as licensing and certification requirements, import regulatory procedures, taxes and other restrictions and expenses;
- requirements under different local regulatory systems, some of which may conflict with each other, including potential service interruptions of our online services due to national security laws or policies in the international markets in which we operate;
- exposure to claims and litigations in markets where the laws and overall environment are unfamiliar to us;
- competition from established local competitors;
- laws and business practices that favour local competitors or prohibit or limit foreign ownership of certain businesses;
- difficulties in integrating with local payment providers, including banks, credit and debit card networks and electronic fund transfer systems;
- potentially adverse tax consequences, including local taxation of our fees or transactions on our websites/applications;
- fluctuations in currency exchange rates;
- our ability to repatriate funds from abroad; and
- interruptions in cross-border Internet connections or other system or network failures.

Our inability to expand our business internationally or any risks associated with conducting business in new overseas markets may have a material and adverse effect on our business, future results of operations and prospects.

Unauthorised use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights may adversely affect our business, future results of operations and prospects.

We regard our intellectual property rights, including our patents, trademarks and content copyrights, as critical to our success. We seek to protect our intellectual property rights by relying on a combination of patent, copyright and trademark protection and contract laws. Despite our precautions, it may be possible for third parties to use such intellectual property without authorisation. The validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving in China and protection and enforcement of our intellectual property rights may not be as effective as in other countries with established legal regimes. Moreover, policing and enforcing against unauthorised use of proprietary technologies are difficult and expensive. Any unauthorised use of our intellectual property could have a material and adverse impact on our business and results of operations. From time to time, we have, and may have to resort to, litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of resources.

We may be subject to intellectual property claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.

As a leading integrated Internet services company operating a broad range of Internet services, such as online games, digital content and online advertising, we may face liability for defamation, negligence, copyright, misappropriation, patent or trademark infringement or other intellectual property rights violations of third parties. See "*Business — Legal Proceedings*". We may receive notices of claims of infringement of third parties' proprietary rights or claims for indemnification resulting from infringement claims arising from our use of technology, content offered on our Internet portals, internally developed or licenced online games or merchandise and services sold on our eCommerce platforms. We could also be subject to claims based upon content that is accessible on our websites or through our services, such as content and materials posted by users on message boards, online communities, voting systems, email or Internet groups. On 17 December 2012, the Supreme People's Court of the PRC promulgated a judicial interpretation, namely, the Provisions of the Supreme People's Court of the PRC on Several Issues concerning the Application of Law in Hearing Civil Dispute Cases Involving Infringement of the Right of Dissemination on Information Networks (最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定), which was amended by the Supreme People's Court of the PRC on December 29, 2020. This judicial interpretation regulates dissemination of infringing materials through the Internet. This judicial interpretation, like certain court rulings and certain other judicial interpretations, provides that the courts will place the burden on Internet service providers to remove not only links or content that have been specifically mentioned in the notices of infringement from right holders, but also links or content Internet service providers "should have known" to contain infringing content. The interpretation further provides that where an Internet service provider has directly obtained economic benefits from any content made available by an Internet user, it has a higher duty of care with respect to Internet users' infringement of third-party copyrights. The provisions under this interpretation are also consistent with requirements under other PRC laws and regulations, including Civil Code. This interpretation, as well as other PRC laws, regulations and judicial interpretations, could subject us and other Internet service providers to significant administrative burdens and litigation risks.

With respect to games and applications developed by third parties, we have procedures designed to reduce the likelihood of infringement. However, such procedures might not be effective in preventing third-party games and applications from infringing other parties' rights.

We are subject to intellectual property rights laws in a number of jurisdictions and have been involved in lawsuits or other proceedings in such jurisdictions from time to time.

Intellectual property claims and litigations are expensive and time-consuming to investigate and defend, and may divert resources and management attention from the operation of our business. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our websites to reduce the risk of future liability, could also have a material and adverse effect on our business, future results of operations and prospects.

Online communications among our users may lead to adverse moral, emotional or physical consequences, which may damage our reputation, lead to litigation or government investigation and have a material and adverse effect on our business, future results of operations and prospects.

Our users engage in highly personalised exchanges over our platforms. Users who have met online through our services may become involved in emotionally charged situations and could suffer adverse moral, emotional or physical consequences. Such occurrences could be highly publicised and have a significant negative impact on our reputation. Users who have suffered such adverse consequences may bring litigation against us to claim compensation in such events. Government authorities may also require us to discontinue or restrict those services that have led, or may lead, to such events. As a result, our business, future results of operations and prospects could be materially and adversely affected.

As our patents may expire and may not be extended, our patent applications may not be granted and our patent rights may be contested, circumvented, invalidated or limited in scope, our patent rights may not protect us effectively. In particular, we may not be able to prevent others from developing or exploiting competing technologies. As a result, there could be material and adverse effects on our business, future results of operations and prospects.

In China, the valid period of utility model patent right or design patent right is ten years, and the valid period of invention patent right is twenty years. None of such patent rights is extendable. Currently, we have patent applications pending in China, but we cannot assure you that we will be granted patents pursuant to our pending applications. Even if our patent applications succeed and we are issued patents in accordance with them, it is still uncertain whether these patents will be contested, circumvented or invalidated in the future. The rights granted under any issued patents may not provide us with proprietary protection or competitive advantages. Further, the claims under any patents that issue from our patent applications may not be broad enough to prevent others from developing technologies that are similar or that achieve results similar to ours. It is also possible that the intellectual property rights of others will bar us from licensing and from exploiting any patents that issue from our pending applications. Issued patents and pending patent applications owned by others exist in the fields in which we have developed and are developing our technology. These patents and patent applications might have priority over our patent applications and could subject our patent applications to invalidation. Finally, in addition to those who may claim priority, any of our existing or pending patents may also be challenged by others on the basis that they are otherwise invalid or unenforceable.

The online advertising market is subject to many uncertainties, which could cause our advertising revenue to be materially and adversely affected.

Online advertising revenue represented 19%, 18% and 17% of our total revenues for the year ended 31 December 2018, 2019 and 2020, respectively. The growth of our advertising revenue relies on increased revenue from the sale of advertising inventory on our products, which could be affected by the following factors:

- growth of the online advertising market;
- acceptance of online advertising as an effective marketing channel;

- our development of tailored advertising solutions to meet advertising clients' needs;
- changes in government rules and regulations impacting the advertising industry;
- alternative methods and strategies available to advertising clients to promote their brands and products; and
- development and acceptance of an independent and reliable standard for measuring the effectiveness of online advertising.

We also may be unable to respond adequately to changing trends in online advertising or advertiser demands or preferences or keep up with technological innovations and improvements in the measurement of user traffic and online advertising. If the online advertising market size does not increase from current levels or we are unable to capture and retain a sufficient share of that market, our ability to maintain or increase our current level of online advertising revenue could be materially and adversely affected.

We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services.

Our success depends on the continuous effort and services of our current executive team and other key personnel and we rely on their expertise in business operations, including the development of new VAS and products and maintenance of our relationships with other strategic partners. If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to easily replace them and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business. Our present and future success will continue to depend on our ability to attract and retain highly skilled technical, managerial, editorial, marketing and customer service personnel. There is no assurance that we may be able to successfully attract, assimilate or retain the personnel we need to succeed. As competition for talent in the Internet and telecommunications industries intensifies, it may be more difficult for us to hire, motivate and retain highly skilled personnel. If we are unable to attract additional highly skilled personnel or retain or motivate our existing personnel, we may not be able to grow effectively.

Legal proceedings or allegations of impropriety against us or our key personnel could have a material and adverse impact on our reputation, results of operations and financial condition.

From time to time, we have been, and may be in the future, involved in lawsuits or subject to allegations brought by our competitors, individuals or other entities against us or our key personnel, including claims of unfair, unethical or otherwise inappropriate business practices. See "*Business — Legal Proceedings*". Any such lawsuit or allegation, with or without merit, or any perceived unfair, unethical or inappropriate business practice by us could generate negative publicity about us, harm our reputation and divert resources and management attention from the operation of our business. We cannot assure you that we will not be involved in lawsuits or subject to allegations of similar nature in the future. In addition, we could incur substantial costs, divert the attention of our management in dealing with these claims, and suffer reputational damage, even if we are successful in our defense or counterclaims, which could have a material and adverse effect on our business, future results of operations and prospects.

Undetected programming errors or defects in our products or unauthorised use of our products could harm our reputation and increase user dissatisfaction, which could materially and adversely affect our business, future results of operations and prospects.

Our products may contain undetected programming errors or other defects. In addition, parties unrelated to us may use our products in unauthorised or unintended ways, such as online cheating programmes that enable users to acquire superior features for our games that they would not have otherwise. Certain cheating software programmes created independently by parties unrelated to us could allow users to eliminate superior features for our games that have been acquired by other users or otherwise affect the

fairness of the game environment for our games. The occurrence of undetected errors or defects in our products, and our failure to discover and disable unauthorised or unintended uses, could disrupt our operations, damage our reputation and detract from our products' user experience. As a result, such errors, defects and cheating programmes could materially and adversely affect our business, future results of operations and prospects.

Unexpected network interruptions caused by system failures, security breaches, malware or computer or mobile device system viruses may disrupt our business operations, harm our reputation, and may require us to expend significant capital and other resources to protect our websites.

We may experience unexpected system interruptions and delays (including those caused by natural disasters such as earthquakes and floods) or security breaches, which may expose us or our users to a risk of loss or misuse of user information, prevent us from efficiently providing services or efficiently fulfilling orders, or cause significant harm to our user relations and reputation and our ability to attract and maintain users and advertisers. We may be required to expend significant capital and other resources to protect our websites against the threat of computer viruses and hackers and to alleviate any problems caused by them. There is no assurance that these measures will be adequate and prevent potential future attacks. In addition, any security breach caused by hacking, which involves efforts to gain unauthorised access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could have a material and adverse effect on our business, future results of operations and prospects.

We maintain a distributed server network architecture hosting servers across China. We have limited backup systems and have experienced system failures and electrical outages from time to time in the past, which have disrupted our operations. Although we have a certain number of disaster recovery plans in place in the event of damage from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, terrorist acts and similar events and will continue to develop additional plans, our existing backup systems and disaster recovery plans may not be effective for such events. If any of the foregoing occurs, we may experience system failures and electrical outages, which could have a material and adverse effect on our business, future results of operations and prospects.

Our users may use our products or services for critical transactions and communications, especially business communications. As a result, any system failures could result in damages to such users' businesses. These users may seek significant compensation from us for their losses. We could incur substantial costs and divert the attention of our management in defending ourselves against these claims even if we are successful in such defense.

Failure of information security could subject us to penalties, damage our reputation and brand, and harm our business, future results of operations and prospects.

The Internet and mobile industries are facing significant challenges regarding information security and privacy, including the storage, transmission and sharing of confidential information. We transmit and store over our systems confidential and private information of our users, customers, distributors and partners, such as personal information, including names, user IDs and passwords, and payment or transaction related information. We are required by PRC law to ensure the confidentiality, integrity, availability and authenticity of the information of our users, customers, distributors and partners, which is also essential to maintain their confidence in our online products and services. In addition, we are subject to a number of international information security regulations.

We have adopted strict information security policies and deployed advanced measures to implement the policies, including, among others, encryption technologies. However, advances in technology, increased level of sophistication and diversity of our products and services, increased level of expertise of hackers, new discoveries in the field of cryptography or others could still result in a compromise or breach of the measures that we use. Because of our leading market position in the Internet and mobile industries in China, we believe we are a particularly attractive target for security breaches and hacking attacks. We may

continue to experience such attacks. In August 2011, the Supreme People's Court and the Supreme People's Procuratorate of the PRC jointly issued the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate of Several Issues on the Application of Law in the Handling of Criminal Cases about Endangering the Security of Computer Information Systems (最高人民法院、最高人民檢察院關於辦理危害計算機信息系統安全刑事案件應用法律若干問題的解釋) regarding hacking and other Internet crimes. In December 2012, the Standing Committee of the PRC National People's Congress promulgated the Decision on Strengthening Network Information Protection, (the "**Network Information Protection Decision**") (全國人民代表大會常務委員會關於加強網絡信息保護的決定). To enforce the Network Information Protection Decision and require Internet service providers to take measures to ensure confidentiality of information of users, the Regulations on Network Information Protection became effective in September 2013. In July 2013, MIIT issued the Action Plan Notice of the Precaution and Administration over the Illegal Hacker Industrial Chain (防範治理黑客地下產業鏈專項行動方案的通知) to specifically crack down on malicious hacking. The Cyber Security Law and the Civil Code also require the internet operators to take necessary technical measures or other measures to protect the personal data. Particularly, for the operators of crucial information infrastructure, the personal data and crucial data should be stored in the territory of China, under circumstances that such data need to be provided to overseas parties due to business requirements, a security assessment shall be conducted before the transmission of the data. However, the effect of these new regulations on curbing hacking and other illegal online activities still remains to be seen.

Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. If we are unable to protect our systems, hence the information stored in our systems, from unauthorised access, use, disclosure, disruption, modification or destruction, such problems or security breaches could cause loss or give rise to our liabilities to the owners of confidential information, such as our users, customers, distributors and partners, subject us to penalties imposed by administrative authorities, and disrupt our operations. This will become more difficult as we continue to grow the number and scale of our cloud-based offerings and store and process increasingly large amounts of information in an environment increasingly hostile to information security. Any negative publicity on the safety or privacy protection mechanism and policy of our websites, mobile or platform services could also have a material and adverse effect on reputation and brand and harm our business, future results of operations and prospects.

We could be liable for fraudulent or unlawful activities of sellers and users.

Our online payments services are susceptible to potentially illegal or improper use, including fraudulent sales of goods or services, illicit sales of controlled substances, restricted or unlawful items, piracy of software, movies, music and other copyrighted or trademarked goods, money laundering, terrorist financing, bank fraud, child pornography, drug trafficking, online securities fraud, identity theft and encouraging, promoting, facilitating or instructing others to engage in illegal activities. Although we have implemented policies to restrict these activities on our platforms, we may not be able to prevent all such misuse by our users. Excessive misuse of our services by users could result in fines, the suspension of our services or reputational harm. We may be subject to claims from customers that merchants have not performed or that their goods or services do not match the merchant's description, whether those arise from merchant fraud or from an unintentional failure to perform by the merchant. While we are indemnified by our partners, we may not be able to recover in full if our partners are unwilling or unable to pay. We may also be subject to claims from users for unauthorised purchases. Negative publicity and customer sentiment generated as a result of fraudulent or deceptive conduct through our online payments services and transactions could damage our reputation, reduce our ability to attract new users or retain existing users and adversely impact our brands. Any costs incurred as a result of potential liability relating to the alleged or actual sale of unlawful goods or the unlawful sale of goods could harm our business. In addition, governmental agencies could require us to modify our business practices and discontinue or restrict our services.

Privacy concerns relating to our technology could damage our reputation and deter current and potential users from using our products and services.

We are subject to privacy regulations from a number of jurisdictions. From time to time, concerns have been expressed about whether our products, services, or processes compromise the privacy of users and others. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy related matters, even if unfounded, could damage our reputation and adversely affect our operating results.

Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection. In addition, the interpretation and application of consumer and data protection laws in the Mainland of China, U.S., Europe and elsewhere are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices and could have a material and adverse effect on our business, future results of operations and prospects.

Our payments business is subject to a number of laws and regulations, including those governing banking, cross-border and domestic money transmission, anti-money laundering, foreign exchange and payment services.

Our payments business is subject to various laws and regulations in China, and any future expansion of our payments business to our *Weixin* service would be subject to various laws and regulations in other jurisdictions where we operate. These laws include those governing banking, cross-border and domestic money transmission, anti-money laundering, foreign exchange and payment services, such as payment processing and settlement services. The legal and regulatory requirements that apply to our payments business vary in the markets where we operate and have increased over time as the geographical scope and complexity of our business and products have expanded. While our payments business has a compliance programme focused on compliance with applicable laws and regulations and has significantly increased the resources of that programme in the last several years, there can be no assurance that we will not be subject to fines or other enforcement actions in one or more jurisdictions or be required to make changes to our business practices or compliance programmes to comply in the future. For example, regulatory authority has prescribed new rules relating to third-party payment, whereby non-bank payment institutions are required to place customer funds in a centralised reserve with the PBOC. In addition, pursuant to the Circular on Transfer of Online Payment Business Conducted by Non-bank Payment Institution from Directly Connected Model to the NetsUnion Platform (關於將非銀行支付機構網絡支付業務由直連模式遷移至網聯平台處理的通知) ("**Circular 209**") issued by the Payment and Settlement Department of PBOC on 4 August 2017, all online payment involving bank accounts conducted by non-bank payment institution should be processed by the unified platform operated by the NetsUnion Clearing Corporation since 30 June 2018. Any new laws and regulations (or changes to, or expansion of, the interpretation or application of existing laws and regulations) applicable to our payments business could subject us to additional laws and regulations, additional licensure requirements and increased regulatory scrutiny, which could force us to change our business practices or limit our ability to grow our business. Costs associated with fines, enforcement actions, changes in compliance requirements or limits on our ability to grow our business, could have a material and adverse effect on our business, future results of operations and prospects.

Our payments business is subject to anti-money laundering, counter-terrorist financing and sanctions laws and regulations.

Our payments business is, and any future expansion of our payments business to our *Weixin* service would be, subject to various anti-money laundering, counter-terrorist financing and sanctions laws and regulations that prohibit, among other things, its involvement in transferring the proceeds of criminal activities. We are focused on compliance with these laws and regulations and have programmes designed to comply with new and existing anti-money laundering, counter-terrorist financing and sanctions legal and regulatory requirements. However, any errors, failures or delays in complying with anti-money laundering, counter-terrorist financing and sanctions laws and regulations could result in significant

criminal and civil lawsuits, penalties, forfeiture of significant assets or other enforcement actions. Any new anti-money laundering, counter-terrorist financing and sanctions laws and regulations (or changes to, or expansion of, the interpretation or application of existing laws and regulations) applicable to our payments business could subject us to additional laws and regulations, additional licensure requirements and increased regulatory scrutiny, which could force us to change our business practices or limit our ability to grow our business. Costs associated with fines or enforcement actions, changes in our compliance requirements or limitations on our ability to grow our business, could have a material and adverse effect on our business, future results of operations and prospects.

Our payments business is subject to consumer protection laws and regulations.

Our payments business is subject to consumer protection laws and regulations in China, and any future expansion of our payments business to our *Weixin* services would be subject to various consumer protection laws and regulations in other jurisdictions where we operate. We are focused on compliance with these laws and regulations and have programmes designed to comply with new and existing consumer protection requirements. However, any errors, failures or delays in complying with such consumer protection laws and regulations could result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets or other enforcement actions. Any new consumer protection laws and regulations (or changes to, or expansion of, the interpretation or application of existing laws and regulations) applicable to our payments business could subject us to additional laws and regulations, additional licensure requirements and increased regulatory scrutiny, which could force us to change our business practices or limit our ability to grow our business. Costs associated with fines or enforcement actions, changes in our compliance requirements or limitations on our ability to grow our business, could have a material and adverse effect on our business, future results of operations and prospects.

We may not be able to maintain existing or establish new arrangements with device manufacturers.

We derive value and benefits from co-operative arrangements with device manufacturers, including mobile phone manufacturers, and we work with these device manufacturers to install our Internet and mobile applications onto their devices for use by purchasers of their devices. Although we currently have contracts with a number of domestic and international device manufacturers operating in China, including mobile phone manufacturers, an interruption in our relationships with such manufacturers could have an adverse impact on our business, including our profitability and ability to deliver VAS and products to our users.

We may become the target of anti-monopoly and unfair competition claims, which may result in our being subject to fines as well as constraints on our business.

The PRC Anti-Monopoly Law (反壟斷法) (the "**Anti-Monopoly Law**") took effect on 1 August 2008. Before the 2018 Institutional Reform Plan, the NDRC, the SAIC and the MOFCOM were the three PRC anti-monopoly enforcement authorities and the NDRC and the SAIC, had in recent years strengthened enforcement actions, including levying significant fines, with respect to cartel activity as well as abusive behavior of companies having market dominance. According to the 2018 Institutional Reform Plan, the anti-monopoly functions performed by the NDRC, the SAIC and the MOFCOM were consolidated into the SAMR, which may place a profound impact on the PRC anti-monopoly law enforcement practice.

The Anti-Monopoly Law also provides a private right of action for competitors or users to bring anti-monopoly claims against companies. In recent years, an increased number of companies have been exercising their right to seek relief under the Anti-Monopoly Law. As public awareness of the rights under the Anti-Monopoly Law increases, more companies, including our competitors, business partners and customers may resort to the remedies under the law to improve their competition position, regardless of the merits of their claims.

On 2 January 2020, the Draft Amendment to the Anti-Monopoly Law (Draft for Comment) (反壟斷法修訂草案(公開徵求意見稿)) ("Draft Amendment") was issued by SAMR to seek public comments. Among others, the Draft Amendment provides that when to determine an operator's dominant market position in the field of Internet, network effect, economies of scale, lock-in effect and the ability of mastering and processing relevant data would be expressly taken into consideration, and further substantially raises maximum fines in gun-jumping cases to 10% of the sales revenue of the previous years.

On 11 September 2020, the SAMR issued Anti-monopoly Compliance Guideline for Operators (經營者反壟斷合規指南), which requires operators to establish anti-monopoly compliance management systems to prevent anti-monopoly compliance risks according to the PRC Anti-monopoly Law.

On 7 February 2021, the Anti-monopoly Commission of the State Council promulgated the Anti-Monopoly Guidelines for Internet Platforms (關於平臺經濟領域的反壟斷指南). The Anti-Monopoly Guidelines for Internet Platforms prohibits certain monopolistic acts of Internet platforms in order to protect market competition and safeguard interests of users and undertakings participating in Internet platform economy, including but not limited to prohibiting platforms with dominant position from abusing their market dominance (such as using big data and analytics to discriminate customers in terms of pricing and other transactional conditions, coercing counterparties into exclusivity arrangements, using technology means to block competitors' interface, favorable positioning in search results of goods displays, using bundle services to sell services or products, compulsory collection of unnecessary user data). In addition, the Anti-Monopoly Guidelines for Internet Platforms also reinforces antitrust merger review for transactions related to internet platform in order to safeguard market competition. As the Anti-Monopoly Guidelines for Internet Platforms was newly promulgated, we are uncertain to estimate its specific impact on our business, financial condition, results of operations and prospects. We cannot assure you that our business operations comply with such regulations and authorities' requirements in all respects.

To our knowledge, a certain number of PRC Internet companies adopt Variable Interest Entity Structure ("**VIE structure**"), but there have been few precedents where Internet companies with a VIE structure were investigated for being involved in the concentrations of undertaking until recently. It has been long debated whether transactions involving Internet companies with a VIE structure are subject to prior filing of notification requirements, since filing of notification of concentration of undertaking made by couples of Internet companies were not accepted in the past. Due to such regulatory history in the industry and as a matter of common industry practice in the past, we did not file prior notification of concentrations of undertaking. In April 2020, the SAMR published a case of concentration of undertaking where a VIE structure was involved (such case was closed in July 2020 and unconditional approval was granted). In November 2020, the Draft Anti-Monopoly Guidelines for Internet Platforms (關於平臺經濟領域的反壟斷指南(徵求意見稿)), also, for the first time, expressly include concentrations involving a VIE structure within the ambit of SAMR's merger control review if the reporting thresholds are triggered. Furthermore, in December 2020, SAMR has, for the first time, formally penalized three Internet companies with a VIE structure for failure to file prior notifications of implementing concentrations. Hence, starting from 2020, SAMR has been reviewing historical cases of concentrations of undertaking of Internet companies with a VIE structure, and past failure to file prior notification of concentrations of undertaking may be investigated and penalized. On 7 February 2021, the Anti-Monopoly Guidelines for Internet Platforms (關於平臺經濟領域的反壟斷指南) was officially promulgated which confirmed that the concentrations involving a VIE structure within the ambit of SAMR's merger control review if the reporting thresholds are triggered.

We may receive close scrutiny from government agencies under the Anti-Monopoly Law and the Anti-Monopoly Guidelines in connection with our business practices, investments and acquisitions. Any anti-monopoly lawsuit or administrative proceeding initiated against us may result in our being subject to profit disgorgement, heavy fines and various constraints on our business, or result in negative publicity which could harm our reputation and results of operations. We have received penalty from the SAMR related to failure to file prior notification of concentrations of undertaking, for example, in March 2021 and in December 2020, each of the Company and one of our subsidiaries China Literature received from the SAMR an official notice of imposition of a fine of RMB500,000 respectively due to the foregoing

reason. There can be no assurance that we or any of our subsidiaries will not be subject to more penalties in the future. These constraints could include forced termination of any agreements or arrangements that are determined to be in violation of anti-monopoly laws, required divestitures and limitations on certain business practices, which may limit our ability to continue to innovate, diminish the appeal of our services and increase our operating costs. These constraints could also enable our competitors to develop websites, products and services that mimic the functionality of our services, which could decrease the popularity of our marketplaces among sellers, buyers and other participants, and cause our revenue and net income to decrease materially.

Failure to comply with the terms of our indebtedness could result in acceleration of indebtedness, which could have an adverse effect on our cash flow and liquidity.

As at 31 December 2020, our borrowings included in current liabilities were RMB14,242 million (US$2,183 million), and borrowings and notes payable included in non-current liabilities were RMB112,145 million (US$17,187 million) and RMB122,057 million (US$18,706 million), respectively. As at 31 December 2020, our total borrowings included in current liabilities comprised onshore RMB bank borrowings, offshore H.K. dollar bank borrowings, offshore EUR bank borrowings, as well as offshore U.S. dollar bank borrowings, and our borrowings included in non-current liabilities comprised onshore RMB bank borrowings, offshore EUR bank borrowings and offshore U.S. dollar bank borrowings. As at 31 December 2020, our notes payable under the Programme comprised of the 2023 Notes, the 2023 Floating Rate Notes, the 2024 Notes, the 2024 Floating Rate Notes, the 2025 Notes, the 2026 Notes, the January 2026 Notes, the 2028 Notes, the 2029 Notes, the 2030 Notes, the 2035 Notes, the 2038 Notes, the 2049 Notes, the 2050 Notes and the 2060 Notes. See "*Description of Other Material Indebtedness*". Under the terms of our current indebtedness and any debt financing arrangement that we may enter into in the future, we are, and may be in the future, subject to financial and other covenants that could, among other things, restrict our business and operations. If we breach any of these covenants, including by failing to maintain certain financial ratios, our lenders or noteholders will be entitled to accelerate our debt obligations. Any default under our indebtedness could require us to repay these loans or redeem the notes prior to maturity as well as limit our ability to obtain additional financing, which in turn may have a material adverse effect on our cash flow and liquidity.

We are subject to interest rate risk in connection with our indebtedness.

We are exposed to interest rate risk related to our indebtedness. The interest rates under our current bank borrowings are based on a spread over LIBOR/HIBOR. As a result, the interest expenses under our bank borrowings will be subject to the potential impact of any fluctuation in LIBOR/HIBOR. Any increase in LIBOR/HIBOR could impact our financing costs, which in turn may have a material adverse effect on our cash flow and liquidity.

We may need additional capital but may not be able to obtain it.

We may require additional cash resources due to future growth and developments of our business, including any investments or acquisitions we may decide to pursue, or for other business changes. If the cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain credit facilities. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including our future financial condition, results of operations, cash flows, share price performance, the liquidity of international capital and lending markets, PRC governmental regulations over foreign investment and the Internet industry in the Mainland of China. In addition, incurring indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, if at all.

If we are unable to raise additional funds on terms favourable to us, or at all, this could have a material and adverse effect on our business, financial condition and results of operations. For example, we may not be able to carry out parts of our growth strategy or invest in technology infrastructures necessary to maintain our growth and competitiveness.

We have limited business insurance coverage.

Insurance companies in the Mainland of China offer limited business insurance products. As a result, although we have insurance for property damage, we do not have any product liability, business liability or disruption insurance coverage for our operations in the Mainland of China, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business and reputation. Any business disruption, litigation or natural disaster could expose us to substantial costs and diversion of resources.

Risks Relating to Our Industry

The laws and regulations governing the Internet and telecommunications and other related industries in China are developing and subject to future changes. If we fail to adhere to applicable regulations, or if we fail to obtain or maintain all applicable permits and approvals, our business, future results of operations and prospects could be materially and adversely affected.

The Internet and telecommunications and other related industries in China are highly regulated by the PRC government. See "*General Regulation on Internet and Telecommunications Industries*". Various regulatory authorities of the PRC government, including, but not limited to State Council, the Cyberspace Administration of China ("**CAC**"), MIIT, SAMR, Ministry of Culture and Tourism ("**MOCT**", which was established in March 2018 by integrating the responsibilities of the MOC and the National Tourism Administration), NRTA (according to the 2018 Institutional Reform Plan, NRTA was formed based on the duty of radio and television administration of the SAPPRFT (which was established in March 2013 by integrating the responsibilities of the GAPP and the State Administration of Radio, Film and Television ("**SARFT**"), and was dismantled according to the 2018 Institutional Reform Plan), Publicity Department of the Central Committee of the Communist Party of China ("**Publicity Department of the CCCPC**", according to the 2018 Institutional Reform Plan, the responsibilities of the SAPPRFT in respect of administration of press and publication were transferred to the Publicity Department of the CCCPC, and the Publicity Department of the CCCPC also lists the name of NAPP), are empowered to promulgate and implement regulations governing various aspects of the Internet and telecommunications and other related industries and we are thus required to obtain applicable licences, permits and approvals from a number of these regulatory authorities in order to conduct our business. Although we have obtained the licences essential to operating our business, these licences are subject to periodical government review. For example, the periodic renewal applications of a few of our licenses are currently being reviewed by the government. Although we do not expect any obstacles for their renewals, we cannot assure you that such renewals will be successfully obtained.

As the Internet and telecommunications and other related industries mature, the PRC government authorities are likely to continue to issue new regulations governing these industries and hence require new and additional licences, permits and approvals. As we further develop and expand our product and services offerings and functions, including new services and products, we and our users may in the future become subject to additional or new regulations (such as stricter regulations relating to content publication, user identity, privacy, consumer and data protection and the provision of online payment services), and we may also need to obtain additional qualifications, permits, approvals or licences. There is no assurance that we can obtain and renew those licences, permits and approvals in a timely or cost-effective manner. Failure to obtain them could materially and adversely affect our business, future results of operations and prospects.

The laws and regulations governing online/mobile financing products in China are under-developed and subject to future changes. If we fail to adhere to applicable regulations, or if we fail to obtain or maintain all applicable permits and approvals, our business and results of the current mobile financing operations would be materially and adversely affected.

With the development of online/mobile financing industries, online/mobile financing products are likely to become subject to more laws and regulations governing these industries, and hence require new and additional licences, permits and approvals, by the PRC government authorities. As we provide expanded mobile financing products via the *Weixin* platform, we and our users may in the future become subject to additional or new regulations and restrictions, and we may also need to obtain additional qualifications, permits, approvals or licences. There is no assurance that we can obtain and renew those licences, permits and approvals in a timely or cost-effective manner. Failure to obtain them could materially and adversely affect our business, future results of operations and prospects.

The PRC government has promulgated a series of rules, regulations and policies that may have negative impact on the online game industry, and we cannot assure you that the PRC government will not promulgate similar rules, regulations or policies in the future.

The online game industry is highly regulated in China. The PRC government has adopted a series of rules, regulations and policies to monitor and control the online game industry in response to, among other things, perceived addiction to online games and its perceived negative social effects, particularly for minors. For example, PRC governmental authorities issued a notice in April 2007 requiring all Chinese online game operators to adopt an "anti-fatigue system" in an effort to curb addiction to online games by minors, under which game operators are required to reduce the value of game benefits for minor game players as their continuous playing time reaches certain thresholds. Online game players in China are also required to register their identity numbers before they can play so game operators are able to identify which game players are minors.

On 25 July 2014, the general office of SAPPRFT promulgated the Notice on Further Implementing the Verification of Real-name Registration for the Anti-Fatigue System of Online Games (關於深入開展網絡遊戲防沉迷實名驗證工作的通知) to further strengthen the implementation of the anti-fatigue system and the real-name registration system provided under the Notice on Implementing the Verification of Real-name Registration for the Anti-Fatigue System of Online Games (關於啟動網絡遊戲防沉迷實名驗證工作的通知) which was issued on 1 July 2011 by eight PRC government agencies, including GAPP, the Ministry of Education and MIIT (the foregoing Notice and Circular on Implementing the Verification of Real-name Registration for the Anti-Fatigue System of Online Games are collectively referred to as the "**Real-name Registration Circular**"). The Real-name Registration Circular indicates that the National Citizen Identity Information Center of the MPS shall verify identity information of game players submitted by online game operators and also specifies that the Anti-Fatigue System of Online Games as referred thereunder shall not apply to smart phone games. It also imposed more stringent penalties on online game operators failing to implement the anti-fatigue and real-name registration systems properly and effectively, including suspension or termination of online game services. In addition, PRC governmental agencies have issued a series of rules and regulations limiting the use of virtual currencies in online games, which may result in higher costs for the operation of our online games and lowers sales of virtual items in our online games.

On 25 October, 2019, the NAPP issued the Notice on Preventing Minors from Addiction to Online Games (關於防止未成年人沉迷網絡遊戲的通知) (the "**Addiction Prevention Notice**") which came into effect on the same day. The Addiction Prevention Notice requires online game operators to establish and implement real-name registration system for users and not provide any game services for users not completing real-name registration from 25 October 2019, and online game enterprises must require all their existing users to complete real-name registration and stop providing game services for users who have not completed real name registration within two months after the Addition Prevention Notice took effect. In addition, period and length of time for playing online games by minors are strictly controlled. Online game operators are not permitted to provide game services for minor users from 22:00 to 8:00 and the length

of time for playing online games by minors shall not exceed 3 hours on each statutory holiday and 1.5 hours on each working day. The Addiction Prevention Notice also regulates for-charge services provided by online game operators to minors, e.g., online game operators shall not provide for-charge service to minors under the age of 8; the recharge amount shall not exceed RMB50 once and RMB200 every month by game users who have reached the age of 8 but not the age of 16, and not exceed RMB100 once and RMB400 every month by minors who have reached the age of 16, etc.

We cannot assure you that the PRC government will not promulgate similar rules, regulations or policies in the future, particularly during periods when public opinion does not favor online games. Such rules, regulations and policies could significantly reduce our revenue and materially and adversely affect our business, future results of operations and prospects.

The enforcement of stricter government supervision of online game content may adversely affect our business, future results of operations and prospects.

Under the Regulations on the Main Functions, Internal Organisation and Staffing of GAPP (國家新聞出版總署(國家版權局)主要職責內設機構和人員編制規定) issued by the General Office of the State Council on 11 July 2008 and the related interpretation circulars, GAPP (whose responsibility had been transferred to SAPPRFT in March 2013 when SAPPRFT was established by integrating the responsibilities of GAPP and SARFT; then in accordance with the 2018 Institutional Reform Plan, SAPPRFT was dismantled, the responsibility of the approval of publication of online games was transferred to NAPP) is authorised to approve the publication of online games before their launch on the Internet.

On 1 July 2009, GAPP issued the Notice on Strengthening the Approval and Administration of Imported Online Games (關於加強對進口網絡遊戲審批管理的通知) (the "**GAPP Notice**"). To further strengthen the GAPP Notice, Provisions on Administration of Internet Publishing Services (網絡出版服務管理規定) (the "**GAPP and MIIT Provisions**") was issued by SAPPRFT and MIIT on 4 February 2016 and effective on 10 March 2016. Under the GAPP Notice and GAPP and MIIT Provisions, all online game operators must obtain an Internet publishing licence to provide online game services. In addition, approvals from NAPP (the successor of GAPP and SAPPRFT) are required when game operators release new versions or expansion packs, or make any changes to the originally approved online game, and game operators shall also obtain the approval of NAPP to import online games from offshore copyright owners. In the event of any failure to meet the above-mentioned requirements, an operator may face heavy penalties, such as being ordered to stop operating online games, or having its business licence revoked. Our licenced online game business may be adversely affected by the GAPP notice. The launch of expansion packs and licenced games might be delayed because of the extra approval required. Such delay in releasing expansion packs or imported games may result in higher costs for our online game operation and have an adverse effect on our game revenue.

Pursuant to the Regulations on the Main Functions, Internal Organisation and Staffing of GAPP (國家新聞出版總署(國家版權局)主要職責內設機構和人員編制規定) issued by the General Office of the State Council on 11 July 2008 and the related interpretation circulars, MOC was authorised to administer and regulate the overall online game industry (for avoidance of doubt, excluding the approval of the publishing online games). On 3 June 2010, MOC issued the Interim Measures for Online Games Administration (the "**Online Game Measures**") (網絡遊戲管理暫行辦法), which was amended on 15 December 2017, aiming to further strengthen MOC's supervision of the online game industry. Pursuant to the Online Game Measures, a company wishing to engage in operation of online games (including smart phone games operated through wireless telecommunication networks), issuance of virtual currency and/or provision of virtue currency transaction services must obtain a Network Culture Operating Permit from the provincial counterpart of MOC. The Online Game Measures provide that all domestic online games must be filed with MOC, while all online games licenced from overseas are subject to a content review prior to their launch. If a substantial change (for example, any significant modification to a game's storyline, language, tasks, or trading system) is made to an existing imported or domestic online game, it will be subject to a new content review. However, on 10 July 2019, the MOC promulgated the Decision on Abolition of the Interim Administrative Measures for Online Games and the Measures for Planning and Administration of

Tourism Development (文化和旅遊部關於廢止網絡遊戲管理暫行辦法和旅遊發展規劃管理辦法的決定) (the "**New Decision**"). According to the New Decision, the Online Game Measures has been abolished since the publication date of the New Decision. On 17 February 2011, MOC issued the Interim Regulations on Administration of Internet Culture (the "**Internet Culture Regulations**") (互聯網文化管理暫行規定), as further amended on 17 February 2011 and 15 December 2017. According to the Internet Culture Regulations, any for-profit operators of "Internet cultural products" (defined as certain online games) are subject to approval from MOC or its provincial counterpart. The Online Game Measures place restrictions on the content of online games, with MOC responsible for reviewing such content. With respect to online games developed in China, operators are required to complete filing procedures with MOC, at least at the provincial level, within thirty days after online games are made available on the Internet. Any imported Internet cultural products are subject to a special approval from MOC. However, on 14 May 2019, the office of MOCT issued the Notice on Adjustment of Approval Scope of the Network Culture Operating Permit and Further Regulation on Approval (文化和旅遊部辦公廳關於調整網絡文化經營許可證審批範圍進一步規範審批工作的通知) ("**MOCT Adjustment Notice**"), pursuant to which, MOCT no longer assumes the responsibility for the administration of online game industry. On 10 July 2019, MOCT abolished the Online Game Measures. No PRC laws and regulations have been officially promulgated regarding whether the responsibility of MOCT for supervising the online games will be undertaken by another government agency, so it is still unclear as to whether such supervision responsibility will be transferred to another government agency or whether such government agency taking on the responsibility will require similar online filing requirement or new supervision requirements for the distribution and operation of online game. If there is similar online filing requirement or new supervision requirements for the distribution and operation of online game, there is no assurance that we can meet all such supervision requirements in a timely or cost-effective manner. Failure to comply with the supervision requirements could materially and adversely affect our business, future results of operations and prospects.

Any administrative changes in regulatory government authorities may impact market conditions which could in turn affect our results of operations.

Our operations of online games are subject to the supervision and administration of multiple government authorities in China. Any administrative changes in regulatory government authorities may also impact market conditions which could in turn affect our results of operations. In early 2018, the responsibilities of the SAPPRFT, being the government authority responsible for pre-approval of online games, in respect of administration of press and publication were transferred to the Publicity Department of the CCCPC. In addition, it is reported that no new online games were approved during the period from April 2018 to December 2018. On 30 August 2018, eight PRC regulatory authorities at national government level, including the NAPP and the Ministry of Education, released the Implementation Programme on Comprehensive Prevention and Control of Adolescent Myopia (綜合防控兒童青少年近視實施方案) (the "**Implementation Programme**"). As part of the plan to prevent myopia among children, the Implementation Programme plans to regulate the number of new online games and restrict the amount of time kids spend playing on electronic devices. On 14 December 2018, SAMR issued the Action Plan for the Implementation of the Implementation Program on Comprehensive Prevention and Control of Adolescent Myopia (貫徹落實綜合防控兒童青少年近視實施方案行動方案), which stipulates that SAMR will conduct inspection of anti-fatigue system of online games at proper time. Any future suspension of online game approvals and filings by the relevant government authorities, as well as the Implementation Programme may impact our introduction of new online games and expansion of our operational scales. If such adverse market conditions persist, our results of operations may be materially and adversely affected.

Currently, there is no law or regulation specifically governing virtual property rights and therefore it is not clear what liabilities, if any, online game operators may have for virtual property.

In the course of playing online games, users may acquire and accumulate some virtual property, such as virtual Avatars, game tokens, special equipment and other accessories. Such virtual property may be important to online game players and have monetary value and in some cases may be traded among players for actual money. In practice, virtual property can be lost for various reasons, often through unauthorised use of user accounts by other users and occasionally through data loss caused by a delay of network

service, a network crash or hacking activities. The Civil Code contains a general provision in respect of the protection of data and network virtual property. However, there is no PRC law or regulation specifically governing virtual property rights. As a result, there is uncertainty as to who is the legal owner of virtual property, whether and how the ownership of virtual property is protected by law, and whether an online game operator would have any liability to game players or other interested parties (whether in contract, tort or otherwise) for loss of such virtual property. In case of a loss of virtual property, we may be sued by our game players and held liable for damages, which may negatively affect our reputation and business and financial condition.

Based on recent PRC court judgments, the courts have typically held online game operators liable for losses of virtual property by game players, and in some cases have allowed online game operators to return the lost virtual property to game players in lieu of paying damages. If we are sued by our game players or users and held liable for damages, our business, future results of operations and prospects may be negatively affected.

Compliance with the laws or regulations governing virtual currency may result in us having to obtain additional approvals or licences or change our current business model.

The issuance and use of "virtual currency" in China has been regulated since 2007 in response to the growth of the online game industry in China. In January 2007, the MPS, MOC, MIIT and GAPP jointly issued the Notice on Regulating the Operation of Online Games and Investigating to Prohibit Gambling by Way of Online Games (關於規範網絡遊戲經營秩序查禁利用網絡遊戲賭博的通知), which has implications for the use of virtual currency. To curtail online games that involve online gambling, as well as address concerns that virtual currency could be used for money laundering or illicit trade, the circular (a) prohibits online game operators from charging commissions in the form of virtual currency in relation to winning or losing of games; (b) requires online game operators to impose limits on use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players. On 4 June 2009, MOC and MOFCOM jointly issued a notice regarding strengthening the administration of online game virtual currency (關於加強網絡遊戲虛擬貨幣管理工作的通知) ("**Virtual Currency Notice**") which, among other things, stipulates that a single enterprise may not operate both virtual currency issuing services and virtual currency trading services. The Online Game Measures and other rules and guidelines issued by MOC also imposed restrictions on virtual currency related business. However, since the MOCT no longer assumes the responsibility for the administration of online game industry and the Online Game Measures was abolished, it is unclear whether the responsibility for supervising the virtual currency will be undertaken by another government agency and to what extent the issuance and trading of virtual currency shall be subject to relevant rules and guidelines that were issued by MOC and have not been officially abolished.

We issue game tokens to game players and our users use them to purchase various virtual items or time units to be used in our online games. We believe we only offer game tokens for in-game consumption, which are not transferrable among our user accounts and are not convertible into real currency. In addition, we do not offer secondary trading services of the game tokens. Nonetheless, we cannot assure you that the PRC regulatory authorities will not take a view contrary to ours and that we may not be subject to certain penalties, including mandatory corrective measures and fines. The occurrence of any of the foregoing could have a material and adverse effect on our business and results of operations. In addition, the Virtual Currency Notice prohibits online game operators from setting game features that involve the direct payment of cash or virtual currency by players for the chance to win virtual items or virtual currency based on random selection through a lucky draw, wager or lottery. The notice also prohibits game operators from issuing currency to game players through means other than purchases with legal currency. It is unclear whether these restrictions would apply to certain aspects of our online games. Although we believe that we do not engage in any of the above-mentioned prohibited activities, we cannot assure you that the PRC

regulatory authorities will not take a view contrary to ours and deem such feature as prohibited by the Virtual Currency Notice, thereby subjecting us to penalties, including mandatory corrective measures and fines. The occurrence of any of the foregoing could materially and adversely affect our business, future results of operations and prospects.

Regulation and censorship of information disseminated over the Internet in China may adversely affect our business and subject us to liability for content displayed on or linked to our websites.

The PRC government has adopted regulations governing Internet access and the distribution of news and other information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying content over the Internet that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is reactionary, obscene, superstitious, fraudulent or defamatory. Further, MIIT or its local branches may shut down the website of any local Internet service provider that violates such content restrictions, suspend its operations or revoke its ICP licence. If the Chinese government takes any action to limit or prohibit the distribution of information through our network or any of our platforms, or to limit or regulate any current or future content or services available to users on our network, our business could be adversely impacted. Failure to comply with the applicable requirements may result in the revocation of licences to provide Internet content and other licences, the closure of the concerned websites and may subject the website operator to potential liabilities for such censored information displayed on or linked to the website. If our network or any of our platforms is found to be in violation of any such requirements, we may be penalised by relevant authorities, and our operations or reputation could be adversely affected.

We are also subject to potential liability for content on our websites that is deemed inappropriate by the PRC government and for any unlawful actions of our users or website visitors. When Internet and mobile service providers find that any obscene, superstitious, fraudulent or defamatory information has been transmitted on their platforms, they are required to terminate the transmission of such information or delete such information immediately, keep records, and report to relevant authorities. Mobile network operators like *China Mobile*, *China Telecom* and *China Unicom* also have their own policies prohibiting or restricting the distribution of inappropriate content. On 15 December 2009, the MIIT issued the Notice Regarding Plan for Further Regulating Obscene Materials on Mobile Phones (關於進一步深入整治手機淫穢色情專項行動工作方案的通知) ("**Circular 672**"). Under Circular 672, mobile network operators are required to examine their business, promotional channels, as well as the business of their partners, and must immediately terminate such business if any obscene material is involved. Mobile service providers involved in distributing or publishing such obscene materials on mobile handsets are subject to immediate suspension or termination of cooperation with mobile network operators, and violations are reported to relevant authorities. Mobile network operators and mobile service providers must examine all websites accessed through mobile handsets and conduct full daily inspection of such websites. If any obscene material is found, access and transmission must be ceased and be reported to authorities. On 12 August 2013, the MOC issued the Administrative Rules on Content Review by Internet Culture Operating Entities (網絡文化經營單位內容自審管理辦法), which became effective on 1 December 2013, pursuant to which companies operating Internet culture businesses are required to employ personnel certified to conduct content review on their products they are released to the public and retain records of the content review for at least two years.

In particular, the CAC has also issued rules from time to time to enhance the internet service provider's obligations to monitor the information displayed on the information platform and prevent dissemination of illegal content. At the end of 2019, the CAC issued the Provisions on the Management of Network Information Content Ecology (網絡信息內容生態治理規定) (the "**CAC Order No. 5**"), which became effective on 1 March 2020, to further strengthen the regulation and management of network information content. Pursuant to the CAC Order No.5, each network information content service platform is required, among others, (i) not to disseminate any information prohibited by laws and regulations, such as information jeopardizing national security; (ii) to strengthen the examination of advertisements published on such network information content service platform; (iii) to promulgate management rules and platform convention and improve user agreement, such that such network information content service platform

could clarify users' rights and obligations and perform management responsibilities required by laws, regulations, rules and convention; (iv) to establish convenient means for complaints and reports; and (v) to prepare annual work report regarding its management of network information content ecology. In addition, a network information content service platform must not, among others, (i) utilise new technologies such as deep-learning and virtual reality to engage in activities prohibited by laws and regulations; (ii) engage in online traffic fraud, malicious traffic rerouting and other activities related to fraudulent account, illegal transaction account or maneuver of users' account; and (iii) infringe a third-party's legitimate rights or seek illegal interests by way of interfering with information display.

Although we attempt to monitor the content in our online communities, we are not able to control or restrict the content of other Internet content providers linked to or accessible through our websites, or content generated or placed on our other online communities by our users. If third-party websites linked to or accessible through our websites operate unlawful activities such as online gambling on their websites, PRC regulatory authorities may require us to report such unlawful activities to relevant authorities and to remove the links to such websites, or they may suspend or shut down the operation of such websites. To the extent that the PRC regulatory authorities find any content displayed on our websites objectionable, they may require us to limit or eliminate the dissemination of such information on our websites. For example, on 23 January 2019, CAC issued a notice requiring us to make further changes to content we deliver on one of our apps. The notice also stated that the agency had shut down over 9,000 apps and 700 websites since 3 January 2019 due to harmful content. If in the future the PRC government authorities decide to restrict the dissemination of information via microblog services or online postings in general, they may temporarily block access to certain websites for a period of time, require us to discontinue or restrict certain services and websites or levy penalties or fines for violations of relevant rules and regulations arising from content displayed on or linked to our websites. We may also be required to delete content that violates the PRC laws and report content that we suspect to violate PRC law. Any of these actions may adversely affect user confidence in our services and lead to reduced user traffic, which in turn may materially and adversely affect our reputation, business and results of operations.

We also need to monitor the advertising content shown on our websites to ensure that such content is true, accurate and in full compliance with applicable PRC laws and regulations. In addition, according to the Interim Measures for the Administration of Internet Advertising (互聯網廣告管理暫行辦法), issued on 4 July 2016 and effective on 1 September 2016, certain advertisements need to go through a special government review for approval before website posting. Failure to implement those monitoring functions and comply with the relevant laws and regulations may subject us to penalties, including fines, confiscation of any advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting any misleading information. In circumstances involving serious breaches, PRC governmental authorities may force us to terminate our advertising operations or revoke our licences.

Online video and music industry are highly regulated in the Mainland of China. Our failure to comply with any government policies, laws or regulations may materially and adversely impact our business, financial condition and results of operation.

The PRC government regulates the online video and music industry extensively. A number of regulatory authorities, such as MOCT, MIIT, SART and NCA, regulate different aspects of the online video and music industry. These governmental authorities promulgate and enforce laws and regulations that cover many aspects of the online video and music industry, including entry into such industries, scope of permitted business activities, licenses and permits for various business activities and foreign investments into such industry. Operators are required to obtain various government approvals, licenses and permits in connection with their provision of internet information services, internet culture services, online audio-visual products and other related value-added telecommunications services. If we fail to obtain and maintain approvals, licenses or permits required for our business, we could be subject to liabilities, penalties and operational disruption and our business could be materially and adversely affected. In

addition, if applicable laws and regulations are tightened by any regulatory authorities, or if there are new laws or regulations introduced to impose additional government approvals, licenses, permits and requirements, our business may be disrupted and our results of operations may suffer.

Meanwhile, under PRC laws, to secure the rights to provide video or music content on the internet or for our users to download or stream video or music from our platform, or to provide other related online video or music services, we must obtain licenses from the appropriate copyright owners. However, we cannot assure you that we have obtained complete licenses for copyrights with respect to the video or music content offered on our platform, and we cannot assure you that we will not be subject to any potential copyright infringement claims by third parties in relation to such services.

Our cloud services business is subject to a number of laws and regulations. If we fail to adhere to applicable regulations, our business of cloud services would be materially and adversely affected.

Our cloud services business is subject to various laws and regulations in the Mainland of China. Cloud service operators shall obtain a value-added telecommunication service operating licence for Internet data center business and are required to conduct business activities in accordance the applicable national standards in respect of cloud services. Besides, cloud service providers shall also comply with the regulations of the Cyber Security Law of the PRC, according to which the cloud service providers must take technical measures to safeguard the operation of networks, respond to cyber security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. For the crucial information infrastructure operators, the personal information and important data collected by it during the business activities shall be reserved within the territory of the Mainland of China and under circumstance that such information shall be transferred to overseas, relevant security assessment procedure shall be taken prior to the transfer. Any failure or perceived failure to comply with all applicable laws and regulations may result in legal proceedings or regulatory actions against us, and could have a material adverse effect on our business and results of operations.

Privacy concerns or inaccurate information about our users may prevent us from selling demographically targeted advertising, which could make our advertising inventory less attractive to advertisers.

Concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation and results of operations. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is shared with advertisers, may cause the advertising inventory generated by our applications, websites and other services to be less attractive to advertisers. In addition, we have limited ability to validate or confirm the accuracy of information provided during the user registration process. If the information that we collect for targeted advertising is materially inaccurate or false, this may also cause the advertising inventory generated by our applications, websites and other services to become less attractive to advertisers.

Our financial statements for the years ended 31 December 2019 and 2020 may not be comparable with the financial statements for previous years.

We prepare our consolidated financial statements in accordance with IFRS issued by the IASB. IFRS 16 "Leases" issued by the IASB came into effect from 1 January 2019. In preparing the audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, we have adopted the aforementioned new accounting standard as and when it 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 2019 and 2020 may not be comparable with the financial statements for the previous years, including the audited consolidated financial statements as at and for the year ended 31 December 2018. In addition, 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. Further, 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 our business. The comparative figures in 2018 have been restated to conform with the new presentation. For the impact on adoption of the new accounting standard, please refer to Note 2.2 to our audited consolidated financial statements as at and for the year ended 31 December 2019 included elsewhere in this Offering Circular. Investors should exercise caution when comparing our consolidated financial statements for the years ended 31 December 2019 and 2020 with that for previous years.

We are subject to risks associated with our micro-loan business.

We operate our micro-finance business via our affiliate, WeBank, a licensed-bank. WeBank rapidly grew the loan balances of its online micro-loan product, *WeiLiDai*. Micro-finance is a highly regulated business in China subject to the supervision of and regulation by the PBOC and the relevant local government authorities, and our failure to comply with any current or future laws, rules and regulations could subject us to liability, enforcement action by regulators and could harm our reputation. Our credit assessment model may not accurately predict the credit worthiness of our borrowers, and our actual losses could materially exceed our allowances for doubtful accounts. If losses on our portfolio of loans are greater than we expect, whether due to inaccuracies with our credit assessment model or changes in economic conditions or otherwise, our net income could be materially and adversely reduced. In addition, because we continue to be exposed to risk of loss with respect to a portion of losses on the loan portfolio, any failure of borrowers to repay their underlying loans could adversely affect our business, financial condition and results of operations.

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.

The PRC government regulates foreign investment in internet businesses, value-added telecommunications businesses, and other related businesses heavily through strict licensing requirements and other laws and regulations, which also include limitations on foreign ownership in Chinese companies that provide value-added telecommunications services. Specifically, foreign investors are not allowed to own more than 50% equity interest in any Internet content provider or any other value-added telecommunications service provider, except that foreign investors are allowed to own up to 100% of equity interests in a Chinese company that is engaged in eCommerce business, domestic multi-party communications business, store-and-forward business or call center business. In addition, foreign and foreign-invested enterprises are currently not able to apply for the required licences for operating online games in China.

The Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (關於加強外商投資經營增值電信業務管理的通知) (the "**MIIT Circular**"), issued by MIIT in July 2006, reiterated the regulations on foreign investment in telecommunications businesses, which requires foreign investors to set up foreign-invested enterprises and obtain a licence for value-added telecommunications services, to conduct any value-added telecommunications business in China. Under the MIIT Circular, a domestic company that holds a licence is prohibited from leasing, transferring or selling the licence to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities to foreign investors that conduct value-added telecommunications business illegally in China. The MIIT Circular also includes additional requirements and restrictions on a domestic company that holds a licence when it co-operates with a

foreign investor. See "*General Regulation on Internet and Telecommunications Industries — General Regulations on Internet and Telecommunications Industries — Regulations on Foreign Investment in the Value-added Telecommunications Services*". However, due to a lack of further interpretative materials from the regulator, it is unclear what impact the MIIT Circular will have on us or the other Chinese Internet companies that have adopted the same or similar corporate and contractual structures as ours.

On 28 September 2009, GAPP, the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, jointly issued the Notice on Implementing the Provisions of the State Council on "Three Determinations" and the Relevant Explanations of the State Commission Office for Public Sector Reform and further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (關於貫徹落實國務院"三定"規定和中央編辦有關解釋,進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知) ("**Circular 13**"). Circular 13 restates that foreign investors are not permitted to invest in online game-operating businesses in China via wholly-owned, equity joint venture or co-operative joint venture investments and expressly prohibits foreign investors from gaining control over or participating in domestic online game operators through indirect ways such as establishing other joint venture companies or entering into contractual or technical arrangements. However, Circular 13 does not provide any interpretation of the term "foreign investors" or make a distinction between foreign online game companies and companies under a corporate structure similar to ours. Thus, it is unclear whether the SAPPRFT will deem our corporate structure and operations to be in violation of these provisions.

We and our WFOEs are considered foreign persons or foreign-invested enterprises under applicable PRC law. As a result, we operate our VAS, online and smart phone games, online advertising and other Internet and wireless portals in China through affiliated Chinese entities that hold the necessary licences for our existing lines of businesses. We do not own any equity interest in these affiliated entities, which are considered to be our consolidated affiliated entities, but through a series of contractual arrangements between our WFOEs and these affiliated entities, we exercise control over these affiliated entities and obtain substantially all of the revenue in the form of technical support, consulting, licensing, revenue sharing and other fees. Since the contractual arrangements transfer the economic risks and benefits of the affiliated entities to us, we have concluded that it is appropriate to treat these affiliated entities as our consolidated affiliated entities and consolidate their financial results.

Based on the advice of our PRC legal counsel, the corporate structure of our WFOEs and the consolidated affiliated entities does not violate applicable existing PRC laws and regulations. However, our PRC legal counsel also advises that the relevant PRC regulators have substantial discretion to review, interpret and apply these laws and regulations from time to time, and it is possible that they may take a view that is different from our PRC legal counsel's opinion. Pursuant to the Foreign Investment Law (外商投資法), which was promulgated by the National People's Congress on 15 March 2019 and came into effect on 1 January 2020, "foreign investment" is defined to include any foreign investor's direct and indirect investment in the Mainland of China, in particular, including making investment through other means provided by laws, administrative regulations, or State Council provisions. See "*General Regulation on Internet and Telecommunications Industries — Corporate Laws and Industry Catalogue Relating to Foreign Investment*". However, it remains unclear whether our contractual arrangements will cause our affiliated Chinese entities to be interpreted and deemed as foreign investment under the Foreign Investment Law. In addition, on 26 December 2019, the Supreme People's Court issued the Interpretations on Certain Issues Regarding the Applicable of Foreign Investment Law (最高人民法院關於適用中華人民共和國外商投資法若干問題的解釋) (the "**FIL Interpretations**"), which came into effect on 1 January 2020. In accordance with the FIL Interpretations, where a party concerned claims an investment agreement to be invalid based on that it is for investment in prohibited industries under the negative list or it is for investment in restricted industries under the negative list and violates the restrictions set out therein, the courts should support such claim. There remains uncertainty as to whether our contractual arrangements will be deemed as investment agreements under the FIL Interpretations. Therefore, we cannot assure you that our contractual arrangements will be deemed by the relevant government authorities to be in

compliance with current PRC laws and regulations or that the relevant government authorities will not in the future reassess or reinterpret existing laws, regulations or policies in this area, or issue new laws, regulations or policies in this area, with the result that all or some of these arrangements would be deemed to be in violation of PRC law.

If the PRC government determines that we do not comply with applicable laws and regulations, including any laws and regulations that may be introduced, it could:

- levy fines and/or confiscate our income;
- revoke our WFOEs' business licences and/or affiliated entities' business and operating licences;
- require us to discontinue or restrict our operations;
- restrict our right to collect revenue;
- block our websites, online and smart phone games, platforms or our other VAS services;
- require us to restructure our ownership and organisational structure and operations;
- impose additional requirements which we may not be able to comply; or
- take other regulatory or enforcement actions against us that could be harmful to our business.

Any of these or other similar actions could potentially disrupt substantially all of our business operations, divert our management attention and restrict us from conducting our business operations in the same way as we currently conduct it, which could materially and adversely affect our business, future results of operations and prospects.

Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On 15 March 2019, the National People's Congress approved the Foreign Investment Law, which came into effect on 1 January 2020 and replace the trio of laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalise its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

However, since the Foreign Investment Law is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangements would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. On 26 December 2019, the State Council approved the Implementation Regulations of the Foreign Investment Law, which came into effect on 1 January 2020 and still does not explicitly classify contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our

contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. In addition, on 26 December 2019, the Supreme People's Court issued the FIL Interpretations, which stipulates that where a party concerned claims an investment agreement to be invalid based on that it is for investment in prohibited industries under the negative list or it is for investment in restricted industries under the negative list and violates the restrictions set out therein, the courts should support such claim. There remains uncertainty as to whether our contractual arrangements will be deemed as investment agreements under the FIL Interpretations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

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.

We rely and expect to continue to rely on contractual arrangements with the consolidated affiliated entities and their shareholders in China to operate our business and hold our licences, permits and certain other assets. These contractual arrangements may not be as effective as direct ownership in providing us control over the consolidated affiliated entities. The contractual arrangements with our consolidated affiliated entities and their shareholders in China contain provisions to the effect that an arbitral body may award remedies over the shares and/or assets of our consolidated affiliated entities, injunctive relief and/or winding up of our consolidated affiliated entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. Therefore, in the event of breach of any agreements constituting the contractual arrangements by our consolidated affiliated entities and/or its shareholders, and if we are unable to enforce the contractual arrangements, we may not be able to exert effective control over our consolidated affiliated entities which could negatively affect our ability to conduct our business.

If (i) the consolidated affiliated entities and their shareholders fail to perform their obligations under these contractual arrangements, (ii) the consolidated affiliated entities and their shareholders terminate the contractual arrangements, (iii) the consolidated affiliated entities undergo corporate or other changes that affect their rights over assets held by them or (iv) these contractual arrangements are invalid or defective due to violation of PRC laws and regulations or other reasons, our business operations in China would be materially and adversely affected. Further, if we fail to renew these contractual arrangements prior to their expiration, we would not be able to continue our business operations in China.

A majority of these contractual arrangements are governed by PRC law. Accordingly, these contracts would be interpreted in accordance with PRC laws. The legal environment in China is not as developed as in certain other jurisdictions and as a result, operations of the PRC legal system could limit the enforcement of these contractual arrangements. These contractual arrangements, which relate to critical aspects of our operations, will be invalid or unenforceable if they are found in violation of PRC laws and regulations. We may be unable to exert effective control over the consolidated affiliated entities and our business and financial condition could be materially and adversely affected.

The shareholders of our consolidated affiliated entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Our consolidated affiliated entities are owned by their respective registered shareholders. Conflicts of interests between these individuals' roles as shareholders of our consolidated affiliated entities and their duties to the Company may arise. There is currently no specific and clear guidance under PRC laws that

addresses the resolution of any conflict between PRC laws and Cayman Islands laws in respect of any conflict relating to corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated affiliated entities, we would have to rely on legal proceedings to resolve these disputes and/or enforce our contractual arrangements with our consolidated affiliated entities, which could result in disruption of our business, and there would be substantial uncertainty as to the outcome of any such legal proceedings.

Our contractual arrangements with our consolidated affiliated entities in China may result in adverse tax consequences to us, and a finding that we or our consolidated affiliated entities owe additional taxes could reduce our net income and the value of your investment.

As a result of our corporate structure and the contractual arrangements between our WFOEs and each of our consolidated affiliated entities in China, we are subject to VAT at a rate of 6% as a result of the VAT reform programme on both service revenues generated by our consolidated affiliated entities' operations in China and revenues derived from our WFOEs' contractual arrangements with these consolidated affiliated entities. Where our consolidated affiliated entity is qualified as a VAT general taxpayer, the VAT charged by our WFOEs on the revenues obtained from such consolidated affiliated entity based on the contractual arrangement between our WFOEs and such consolidated affiliated entity will constitute input VAT for the consolidated affiliated entity, and will be creditable against output VAT arising in connection with VAT taxable activities carried out by the consolidated affiliated entity. In addition, as required by applicable PRC laws and regulations, in particular the Announcement of the State Administration of Taxation on Issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures (國家税務總局關於發佈特別納税調查調整及相互協商程序管理辦法) issued by SAT and effective from 1 May 2017 and amended on 15 June 2018, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between our WFOEs in China on the one hand, and our consolidated affiliated entities on the other, do not represent an arm's-length transaction and adjust our consolidated affiliated entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our consolidated affiliated entities, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose interest charges on our consolidated affiliated entities for underpaid taxes. Our results of operations may be adversely affected if our consolidated affiliated entities' tax liabilities increase or if it is found to be subject to late payment surcharges or other penalties.

Risks Relating to the Mainland of China

Interpretation of PRC laws and regulations involves significant uncertainties.

The PRC legal system is based on written statutes, while People's Courts of all levels carry out trials of similar cases with reference to guiding cases issued by the Supreme People's Court. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, competition and anti-trust, corporate organisation and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of guiding cases, interpretation and enforcement of these laws and regulations involve significant uncertainties. As the PRC legal system develops, changes in such laws and regulations, or in their interpretation or enforcement, could have a material and adverse effect on our business operations. For example, we may be subject to competition and anti-trust investigations by the PRC government from time to time in the future. The outcomes of such investigations may prevent us from offering certain features, functions, services or products; requiring a change in our business practices or requiring development of non-infringing services, products or technologies, which could have a material and adverse effect on our business operations.

On 17 March 2018, the National People's Congress approved the institutional reform plan of the State Council. According to this reform plan, the State Council consists of 26 ministries and commissions in additional to the General Office of the State Council after its reorganisation. The reform covers different levels of institutions in the government, People's congress, political advisory body, judiciary, social organisations and public institutions and in military-civil integration. Driven by the reform plan, the PRC government may change relevant regulations or enforcement, and we may face uncertainties regarding the regulation and administration of our businesses and operations after various institutional reforms take effect, as well as uncertainties in the enforcement of certain laws, regulations and policies, which may have an effect on our business operations. For example, in May 2019, the MOCT issued the MOCT Adjustment Notice to adjust the applicable scope of the Network Culture Operating Permit. Pursuant to the MOCT Adjustment Notice, the MOCT would no longer be the authority supervising the online game industry in the PRC and therefore the business scope of a Network Culture Operating Permit issued by it and its local counterparts would not include online games. On 7 July 2019, the Online Games Measures was abolished by the MOCT. *Tencent Computer* and some other entities in our group have obtained the Network Culture Operating Permit for online games. These Network Culture Operating Permits only for online games will not be renewed after their expiration and those also covering other network culture business may be renewed with the online games removed from the approved business scope. As there are substantial uncertainties regarding the authority supervising the online game industry in the Mainland of China, we cannot assure you that we will be able to obtain any other licenses necessary for us to carry out online game business, or that our existing licenses will continue to cover all aspects of our online game operations upon their renewal.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This has resulted in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC or the enforcement of judgments by a court in another jurisdiction.

The Chinese economic, political and social conditions as well as government policies could adversely affect our business, future results of operations and prospects.

The Chinese economy differs from the economies of most developed countries in many respects, including government involvement, level of development, economic growth rate, control of foreign exchange, and allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy and the PRC government has implemented measures emphasising economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. There can be no assurance that the PRC government will continue to pursue a policy of economic reform or that any such reforms will not have an adverse effect on the way we operate our business. Our business and financial condition could also be materially and adversely affected by any changes in PRC laws and regulations (or the interpretation thereof), as well as changes in the political, economic and social conditions of China.

We may be adversely affected by a severe or prolonged downturn of the global or Chinese economy.

The ongoing Eurozone debt crisis, the unprecedented downgrade of the U.S. credit rating and increasing concerns about a global recession and the trade war, could materially and adversely affect the Chinese economy and currently China-focused businesses like us. The effects of the Eurozone debt crisis could be even more significant if it leads to a partial or complete break-up of the European Monetary Union. There is also considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of the world's leading economies. The grim economic outlook has negatively affected business and consumer confidence and contributed to significant market volatility. The stimulus plans and other measures implemented by the PRC government may not avert an economic downturn amid a severe and prolonged global economic recession.

Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and regulatory policies and the expected or perceived overall economic growth rate in China. Recently there have been signs that the rate of China's economic growth is declining. The rate of economic growth in China has remained slow in comparison to previous years and such slowdown may continue. There were significant capital outflows from China in 2016. Although the PRC government has issued new regulations in late 2017 to stem capital outflows and capital outflows have subsided, the outflows may increase in the future. The slower rate of economic growth of China could be compounded by the decreasing international reserves of the PRC government, as well as sustained low levels of consumer spending in Europe and other countries, which would in turn affect export markets in Asia, particularly in China.

There have been concerns about the relationship among China and other Asian countries, which may result in or intensify potential territorial disputes or other conflicts. There have also been concerns about the relationship between China and the United States, following rounds of tariffs imposed by the United States. Recently, the United States and China have had disagreements over political and economic issues including trade. Controversies may arise in the future between these two countries and trade policies between the two may change. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term. Any future escalation of the ongoing trade war between the United States and China or ongoing impact of the coronavirus may negatively impact the growth in both the Chinese economy and the global economy as a whole.

Any prolonged slowdown in the Chinese economy and globally may lead to reduced Internet-related activities and consumer spending. The deterioration in economic conditions in China and globally may harm the business of our customers, who may experience reduced business volume, and therefore decrease or delay in advertising and marketing service 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. We may also see decreases in demand for our FinTech services from users, such as payment, lending and wealth management services. This may have a negative impact on our results of operations and financial condition.

The outbreak, or threatened outbreak, of any pandemics or severe epidemics could materially and adversely affect our business, future results of operations and prospects.

On 11 March 2020, the World Health Organisation declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic and governmental responses to the pandemic have had, and continue to have, a severe impact on global economic conditions, including significant disruption and volatility in the financial markets, disruption of global supply chains, temporary closures of many businesses, leading to loss of revenues and increased unemployment, and the institution of social distancing and sheltering-in-place requirements in many countries. If the pandemic is prolonged, or other diseases emerge that give rise to similar effects, the adverse impact on the global economy could deepen. With an aim to contain the COVID-19 outbreak, the PRC and other governments have imposed various strict measures across the globe including, but not limited to, travel restrictions, mandatory quarantine requirements, and postponed resumption of business operations.

We have diversified revenue streams to generate consistent growth through the COVID-19 pandemic. However, the extent to which the COVID-19 outbreak impacts our financial condition and results of operations for the year of 2021 cannot be reasonably estimated at this time and will depend on future developments that currently cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 outbreak and the actions to contain the COVID-19 outbreak or treat its impact, and the impact on the economic growth and business of our customers for the foreseeable future, among others. Any future outbreak of public health epidemics may restrict economic activities in affected regions, resulting in reduced business volume, disrupt our business operations and adversely affect our results of operations.

The outbreak, or threatened outbreak, of any pandemics or severe epidemics (such as severe acute respiratory syndrome or avian influenza) in China could materially and adversely affect the overall business sentiment and environment in China, particularly if such outbreak is inadequately controlled. This, in turn, could materially and adversely affect domestic consumption, labour supply and, possibly, the overall gross domestic product growth of China. Labour shortages on contraction or slowdown in the growth of domestic consumption in China could materially and adversely affect our business and results of operations. In addition, if any of our employees are affected by any severe epidemics, it could adversely affect or disrupt operations and may also involve a closure of our offices and facilities to prevent the spread of the disease. The spread of any severe epidemics in China may also affect the operations of our customers and suppliers, which could materially and adversely affect our business, future results of operations and prospects.

If the PRC tax authorities determine that we are a "resident enterprise", we and the Noteholders may face unfavorable tax consequences.

Under the 2008 EIT Law, enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises". The Regulation on the Implementation of the PRC Enterprise Income Tax Law (中華人民共和國企業所得税法實施條例) ("**Implementation Rules**") defines "de facto management body" as an organisation that exercises substantial and overall management and control over an enterprise's manufacturing, or business operation, personnel, accounting and property. In addition, SAT has promulgated the Circular on Identification of China-controlled Overseas-registered Enterprises as Resident Enterprises on the Basis of De Facto Management Bodies (Guo Shui Fa [2009] No. 82) (國家税務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) (國税發[2009]82號), which further provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore incorporated enterprise is located in China. The criteria include whether: (i) the premises where the senior management and the senior management departments responsible for the daily production and operation management of the enterprise perform their functions are mainly located within China, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in China, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China. Circular 82 further requires a "substance over form" principle to be followed when determining the location of the de facto management body. SAT has subsequently issued measures concerning the recognition, administration and taxation of Chinese controlled offshore enterprises whose de facto management bodies are located within China. Although Circular 82 applies only to offshore enterprises controlled by enterprises or enterprise groups located within China, not including those ultimately controlled by Chinese individuals, the determining criteria set forth in Circular 82 may reflect the SAT's general position on how the "de facto management body" test may be applied in determining the tax resident status of all offshore enterprises.

As the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body" as applicable to offshore entities such as us, we cannot assure you that we will not be considered to be a PRC tax resident enterprise. In the event that we are determined to be a PRC tax resident enterprise, we would consequently be subject to a 25% CIT on our worldwide taxable income (other than non-taxable dividends from our subsidiaries based on relevant tax circulars). In addition, we may be subject to PRC CIT reporting obligations. Furthermore, because interest payments on the Notes may be regarded as being derived from sources within China, we would be obligated to withhold PRC income tax at a rate of 10% on interest payments to non-resident enterprise investors or up to 20% on interest payments to non-resident individuals. In addition, interest payable by us to non-resident noteholders may be subject to PRC value added tax at a rate of 6% and related local levies, including educational surtax and urban maintenance and construction tax at a rate of up to 0.72%. Failure to withhold these taxes if required to do so could cause us to be subject to fines and other penalties. The requirement to pay additional amounts will increase the cost of servicing the interest payments on the Notes and could have an adverse effect on our financial condition.

Any PRC tax liability may be reduced by an applicable tax treaty, such as the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排) ("**Tax Arrangement**"), which reduces the applicable PRC income tax on interest to 7% for certain qualifying Hong Kong resident enterprises. Hong Kong individual tax residents could also apply the treaty if the individuals are beneficial owners of the interest.

If we were treated as a PRC tax resident enterprise, any gain realised by non-resident investors from the transfer of the Notes may be regarded as PRC source income and be subject to a 10% PRC tax for non-resident enterprises or a 20% tax for non-resident individuals, unless an applicable tax treaty or arrangement provides for a reduced tax rate.

The PRC government's pilot plan to replace business tax with value-added tax ("VAT") may subject us to more taxes, which could adversely affect our business, future results of operations and prospects.

Pursuant to the PRC Provisional Regulations on Business Tax (中華人民共和國營業税暫行條例), which has been repealed by the State Council on 19 November 2017, taxpayers providing taxable services falling under the category of service industry in China were required to pay a business tax at a normal tax rate of 5% of their revenues. In November 2011, the MOF and the SAT promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (營業税改徵增值税試點方案). Pursuant to this pilot plan and relevant subsequent notices, from 1 January 2012, VAT gradually replaced business tax in the transport and post industry, telecom industry and some of the modern service industries in China. Under the pilot plan, a VAT rate of 6% applies to certain modern service industries. On 23 March 2016, the MOF and SAT promulgated the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-Added Tax to Replace Business Tax (Cai Shui [2016] No. 36 (關於全面推開營業税改徵增值税試點的通知(財税[2016]36號)) ("**Circular 36**"). Pursuant to Circular 36, starting from 1 May 2016, the VAT pilot programme has covered construction industry, real estate industry, finance industry and life service industry on a nation-wide basis. On 20 March 2019, the MOF, the SAT and the General Administration of Customs jointly issued the Notice of Strengthening Reform of VAT Policies (關於深化增值税改革有關政策的公告), pursuant to which the generally applicable VAT rates are simplified to 13%, 9%, 6%, and nil, which became effective on 1 April 2019. Although the VAT pilot programme is mainly intended to reduce double taxation under the business tax system, we may be subject to more taxes under the VAT pilot programme in connection with our operations and activities in China, which could adversely affect our business, future results of operations and prospects.

Discontinuation of any of the preferential tax treatments or imposition of any additional taxes could adversely affect our business, future results of operations and prospects.

The National People's Congress passed the 2008 EIT Law which was amended in 2017 and 2018 with the latest amendment becoming effective on 29 December 2018, and the State Council passed its implementation rules, which became effective on 1 January 2008 and was amended and became effective on 23 April 2019. The 2008 EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the PRC Income Tax Law concerning Foreign-Invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得税法) effective prior to 1 January 2008. The 2008 EIT Law, however, (i) reduces the statutory rate of the CIT from 33% to 25% and (ii) introduces new tax incentives, subject to various qualification criteria.

The 2008 EIT Law and its implementing rules permit certain "high/new technology enterprises" to enjoy a reduced 15% CIT rate subject to certain new qualification criteria. Pursuant to the Circular on Income Tax Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry issued on 20 April 2012 (Cai Shui [2012] No. 27 (關於進一步鼓勵軟件產業和集成電路產業發展企業所得税政策的通知(財税[2012]27號)) ("**Circular 27**") which was last amended on 11 December 2020, a qualified software enterprise is eligible to be exempted from income tax for its first two profitable years before 31 December 2017, followed by a reduction of income tax to 12.5% for the subsequent three years. Moreover, pursuant to Announcement on Income Tax Policies for Integrated Circuit Design and Software

Enterprises (MOF and State Administration of Taxation Announcement [2019] No. 68) (關於集成電路設計和軟件產業企業所得稅政策的公告) ("**Bulletin 68**"). Announcement on the Policy Applicable to the Final Settlement of Enterprise Income Tax for the Year 2019 for Integrated Circuit Design Enterprises and Software Enterprises (Announcement of the Ministry of Finance and State Taxation Administration [2020] No. 29) (關於集成電路設計企業和軟件企業2019年度企業所得稅匯算清繳適用政策的公告) (財政部、稅務總局公告2020年第29號), and Announcement on the Enterprise Income Tax Policies for Promoting the High-quality Development of the Integrated Circuit Industry and the Software Industry (Announcement of the Ministry of Finance, the State Taxation Administration, the National Development and Reform Commission and the Ministry of Industry and Information Technology [2020] No. 45) (財政部、稅務總局、發展改革委、工業和信息化部公告2020年第45號) ("**Bulletin 45**"), the foresaid "tax exemption for the first two years and 50% tax reduction for the next three years" for the qualified software enterprise has been extended accordingly. In addition, pursuant to the Bulletin 45 effective from 1 January 2020, the key integrated circuit design enterprises and software enterprises encouraged by the State is entitled to be exempted from CIT from the first year to the fifth year since its profit-making year, and then enjoy a reduced 10% CIT rate since the sixth year. Certain of our WFOEs and consolidated affiliated entities have been recognised by the relevant authorities as "high/new technology enterprises" or satisfy the criteria of "national key software enterprises" or "software production enterprises" and therefore are eligible for the preferential tax treatments upon their filing or reporting of the qualified status with the relevant tax authorities. Preferential tax treatments granted to our WFOEs and consolidated affiliated entities by the local governmental authorities are subject to review and may be adjusted or revoked at any time. We cannot assure you that we will be able to maintain our current effective tax rate in the future. If any of the WFOEs or consolidated affiliated entities, which has enjoyed such preferential tax treatments fails to maintain their qualification status or renew their qualifications when the relevant term expires, their applicable CIT rate may increase to 25%, which could have a material and adverse effect on our business, future results of operations and prospects.

We may rely on dividends and other distributions on equity paid by the WFOEs to fund any cash and financing requirements we may have. Any limitation on the ability of our WFOEs to pay dividends to us could materially and adversely affect our business, future results of operations and prospects.

We are a holding company, and we may rely on dividends and other distributions on equity to be paid by our WFOEs to meet our cash and financing requirements, including the funds necessary to pay service any debt we may incur. If any of our WFOEs incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, our WFOEs may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, each of our WFOEs in China is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. With approval by its shareholders in accordance with its articles of association, the WFOE may allocate a portion of its after-tax profits based on PRC accounting standards to discretionary reserve funds. These reserve funds are not distributable as cash dividends.

Any limitation on the ability of our WFOEs in China to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

According to the 2008 EIT Law and the Implementation Rules and other prevailing PRC tax circulars, dividends generated from the business of our WFOEs in China on or after 1 January 2008 and payable to the WFOEs' immediate holding companies incorporated in Hong Kong will be subject to a withholding tax rate of 10% if the PRC tax authorities determine that such holding companies are not beneficial owners of the dividends and not eligible for the lower withholding tax treatments under the applicable double taxation arrangement between the Mainland of China and Hong Kong. If the Hong Kong holding companies' beneficial owner status are not challenged by the PRC tax authorities, the withholding tax rate could be reduced to 5% from 10%.

In addition, on 17 March 2017, SAT issued the Announcement of the State Administration of Taxation on Issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures (國家稅務總局關於發佈特別納稅調查調整及相互協商程序管理辦法的公告) ("**Circular 6**"), which was amended on 15 June 2018. According to Circular 6, any payment, especially service fees and royalties that are made by enterprises to their offshore affiliates which fail to satisfy the arm's length transaction principles may not be deducted from such enterprise's taxable income when calculating its enterprise income tax. In the case of any foregoing payment to offshore affiliates, the PRC tax authorities may request the payer to provide relevant transaction documents thereunder and to prove the real transaction background and the arm's length transaction nature of such payment and transaction, and will take into consideration the offshore affiliate's actual contribution in such transaction when determining whether such transaction is in compliance with the arm's length transaction principles. Accordingly, the distributions paid by our WFOEs to us might be challenged on their actual transaction background by the PRC tax authorities based on Circular 6 and might therefore incur certain tax burden on our WFOEs.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our Chinese subsidiaries to liability or penalties, limit our ability to inject capital into our Chinese subsidiaries, limit our Chinese subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

On 4 July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicle (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) ("**Circular 37**"), which abolishes and supersedes the Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) ("**Circular 75**") issued by SAFE on 21 October 2005. Circular 37 and its implementation guidelines require Chinese residents to register with local branches of SAFE (or qualified bank in accordance with SAFE Circular 13 as defined below) in connection with their direct establishment or indirect control of an offshore entity for the purpose of overseas investment and financing with such Chinese residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a "special purpose vehicle". Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by Chinese individuals, share transfer or exchange, merger, division or other material event. In the event that a Chinese shareholder holding interests in a special purpose vehicle fails to fulfil the required SAFE registration, the Chinese subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its Chinese subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

On 13 February 2015, SAFE promulgated Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) ("**SAFE Circular 13**"), which became effective on 1 June 2015 and was amended on 30 December 2019. In accordance with SAFE Circular 13, if no retroactive SAFE registration is required, entities and individuals are required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under the Circular 37, with qualified banks, instead of SAFE, while SAFE will handle retroactive SAFE registration. The qualified banks, under the supervision of SAFE, directly examine the applications and conduct the registration.

We have notified substantial holders of ordinary shares of the Company whom we know are Chinese residents to register with the local SAFE branch and update their registrations as required under the SAFE regulations described above. We, however, cannot provide any assurances that all of our shareholders who are Chinese residents will file all applicable registrations or update previously filed registrations as required by these SAFE regulations. The failure or inability of our Chinese resident shareholders to

comply with the registration procedures set forth therein may subject such Chinese resident shareholders to fines and legal sanctions, restrict our cross-border investment activities, or limit our Chinese subsidiaries' ability to distribute dividends to us or restrict us in injecting additional capital or extending loans to our Chinese subsidiaries.

As it is uncertain how the SAFE regulations described above will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a Chinese domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business, future results of operations and prospects.

Governmental control of currency conversion may limit our ability to obtain sufficient foreign currency to satisfy our currency demands and may affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB and substantially all of our cash inflows and outflows are denominated in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our Chinese operating subsidiaries. We may convert a portion of our revenues into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our ordinary shares, if any. Shortages in the availability of foreign currency may restrict the ability of our Chinese subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies generally without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate banks appointed by government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay interests in foreign currencies to the holders of the Notes.

PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

PRC laws and regulations, such as the Regulations on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors ("**M&A Rules**") (關於外國投資者併購境內企業的規定) adopted in September 2006 and amended on 22 June 2009, the Anti-Monopoly Law (反壟斷法) which became effective on 1 August 2008, and Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知) effective from 3 March 2011, established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise, or that the approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by Chinese enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review. Provisions of the MOFCOM on the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定),

effective from 1 September 2011, further provide that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review by the PRC governmental agencies, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. On 19 December 2020, the NDRC and the MOFCOM promulgated the Measures for the Security Review of Foreign Investment (外商投資安全審查辦法), which came into effect on 18 January 2021. See "*Regulations on Foreign Investor's Merger and Acquisition of PRC Enterprises*" for more details. If the business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or through any contractual arrangements. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We face uncertainties with respect to indirect transfers of equity interests in Chinese resident enterprises by their non-Chinese holding companies.

On 10 December 2009, the SAT issued the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises ("**Circular 698**") (國家税務總局關於加強非居民企業股權轉讓所得企業所得税管理的通知), with retroactive effect from 1 January 2008, which has been repealed from 1 December 2017. On 3 February 2015, the SAT further promulgated the Announcement on Enterprise Income Tax for Indirect Transfers of Properties by Non-PRC Resident Enterprises ("**Circular 7**") (國家税務總局關於非居民企業間接轉讓財產企業所得税若干問題的公告), effective from 3 February 2015 and further amended in December 2017, to replace certain provisions under Circular 698 and to further strengthen the regulation regarding indirect transfers of Chinese properties through the transfer of equity interests in Chinese resident enterprises by the non-Chinese resident enterprises. According to Circular 7, if a non-resident enterprise conducts an "indirect transfer" by transferring its equity interest in an offshore enterprise, which directly or indirectly owns Chinese real property or property of a business conducted within China ("**PRC Taxable Property**"), and the foregoing "indirect transfer" does not satisfy the "reasonable business purpose test" as provided in Circular 7, each of the transferor, the transferee and the Chinese resident enterprise (as the ultimate target company under the transfer) has discretion to report the transfer to the relevant tax authority of the Chinese resident enterprise.

According to Circular 7, several factors must be considered when determining whether an indirect transfer has a reasonable business purpose, including (i) whether the value of the equity interest in the overseas holding company derives, directly or indirectly, from the PRC Taxable Property; (ii) whether investments within China constitute, directly or indirectly, the main assets of the overseas holding company, or, whether the income of the overseas holding company is mainly generated, directly or indirectly, from China; (iii) whether the functions actually performed and the risks undertaken by the overseas holding company and its subsidiaries, directly or indirectly holding the PRC Taxable Property, can establish the economic substance of the corporate structure; (iv) the shareholders and business model of the overseas holding company and the duration that the relevant corporate structure has existed; (v) the foreign income tax consequences of such indirect transfer; (vi) whether such indirect transfer and indirect investment regarding the PRC Taxable Property could have been made through a direct transfer of and indirect investment in the PRC Taxable Property and (vii) the tax treaties or arrangements applicable in China to gains derived from such indirect transfer. However, notwithstanding the foregoing factors, if such indirect transfer and other arrangements related thereto satisfy all of the following conditions, such indirect transfer shall be immediately deemed as "without reasonable business purpose": (i) the PRC Taxable Property constitutes 75% or more of the value of the equity interests of the overseas holding company; (ii) at any time within one (1) year before such indirect transfer, the overseas holding company's investment in China constitutes, directly or indirectly, 90% or more of its total assets (exclusive of any cash), or, within one (1) year before such indirect transfer, 90% or more of the overseas holding company's income was generated, directly or indirectly from within China; (iii) the limited functions actually performed and

the risks undertaken by the overseas holding company and its subsidiaries, directly or indirectly holding the PRC Taxable Property are insufficient to establish the economic substance of their corporate structure and (iv) the foreign income tax rate on such indirect transfer is lower than that on the PRC Taxable Property under applicable PRC laws. Circular 7 also provides some exceptions for indirect transfers of certain PRC Taxable Property, including (i) shares in an offshore listing company that are bought and sold by a non-Chinese resident enterprise via a public market, or (ii) gains derived from indirect transfers that would not have been subject to income tax pursuant to the applicable tax treaties or arrangements had the PRC Taxable Property been directly transferred, or (iii) transactions that are internal transfers among affiliates via share swaps and would not ultimately decrease the amount of gain subject to PRC income tax, taking the contingent transactions into consideration. Gains derived from an indirect transfer of the PRC Taxable Property may be subject to PRC withholding tax at a rate of up to 10%. The PRC tax authorities may apply Circular 7 to our previous financing transactions where non-resident private equity investors were involved, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us, if they decide that any of such transactions do not have a reasonable commercial purpose. As a result, we and our non-resident investors in such transactions may become at risk of being taxed under Circular 7 and we may be required to expend valuable resources to comply with Circular 7 or to establish that we should not be taxed under the general anti-avoidance rule of the 2008 EIT Law, which may have a material and adverse effect on our financial condition and results of operations or such non-resident investors' investments in us.

Fluctuations in exchange rates may have a material and adverse effect on your investment.

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in the Chinese political and economic conditions and the Chinese foreign exchange policies. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on exchange rates set by the PBOC. Pursuant to reforms of the exchange rate system announced by the PBOC on 21 July 2005, RMB-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from 18 May 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the RMB against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on 21 May 2007. This allows the RMB to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on 16 April 2012 and further widened to 2.0% on 17 March 2014. These changes in currency policy resulted in the RMB appreciating against the U.S. dollar by approximately 24.5% from 21 July 2005 to 31 December 2016. On 11 August 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorising market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to 10 August 2015, and further depreciated by nearly 1.6% on 12 August 2015 as compared to 11 August 2015. The International Monetary Fund announced on 30 September 2016 that, effective from 1 October 2016, the RMB would be added to its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the RMB against foreign currencies.

We mainly operate in China with most of our transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. We hold some financial assets denominated in U.S. dollars, H.K. dollars, Euro and Korea Won subject to certain thresholds stated in our treasury mandate and borrow some bank loans denominated in U.S. dollars. We also issue long-term notes denominated in U.S. dollars and H.K. dollars from time to time. This exposes us to foreign exchange risk.

Any significant revaluation of RMB may materially and adversely affect our revenue, earnings and financial position, and the value of the Notes in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would reduce the amount of RMB we would receive if we need to convert U.S. dollars into RMB. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the value of the Notes. It is difficult to predict how the PBOC's policy may impact the RMB exchange rate in the future.

The Group manages its foreign exchange risk by regularly reviewing the Group's net foreign exchange exposures and tries to minimise these exposures through natural hedges wherever possible and may enter into forward foreign exchange contracts, when necessary. However, the availability and effectiveness of these current and future arrangements may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by Chinese exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material and adverse effect on your investment.

Implementation of the labour laws and regulations in China may adversely affect our business and results of operations.

Pursuant to the labour contract law that became effective in January 2008 and further amended on 28 December 2012 and became effective on 1 July 2013, and its implementation rules that became effective in September 2008, employers are subject to stricter requirements in terms of signing labour contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labour contracts. Due to lack of detailed interpretation rules and uniform implementation practice and possible penalties, it is uncertain as to how it would affect our current employment policies and practices. Our employment policies and practices may violate the labour contract law or its implementation rules, and we may thus be subject to related penalties, fines or legal fees. Compliance with the labour contract law and its implementation rules may increase our operating expenses, in particular our personnel expenses. In the event that we decide to terminate some of our employees or otherwise change our employment or labour practices, the labour contract law and its implementation rules may also limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. On 28 October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law (中華人民共和國社會保險法) which became effective on 1 July 2011 and was amended on 29 December 2018. On 24 March 2019, the State Council amended Regulation on the Administration of Housing Accumulation Funds. According to applicable Chinese social insurance laws and the Regulation on the Administration of Housing Accumulation Funds (住房公積金管理條例), employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance and housing funds and the employers must, together with their employees or separately, pay the social insurance premiums and housing funds for such employees. On 20 July 2018, the General Office of the State Council issued the Plan for Reforming the State and Local Tax Collection and Administration Systems (國税地税徵管體制改革方案), which stipulated that the SAT would become solely responsible for collecting social insurance premiums. On 24 January 2014, the Ministry of Human Resources and Social Security promulgated the Provisional Rules on Labour Dispatching (劳務派遣暫行規定), effective 1 March 2014. Intended to control labour dispatching arrangements, these regulations require that dispatched workers may be designated only to positions of a temporary, supporting or substitute nature, and further require employers to change and adjust their employment structure so that their used dispatched workers should not exceed a statutory cap of 10% of total employees.

We expect our labour costs to increase due to the implementation of these new laws and regulations. As the interpretation and implementation of these laws and regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed in full compliance with labour-related laws and regulations in China which may subject us to labour disputes or government investigations. If we are deemed to have violated relevant labour laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be

materially and adversely affected. Further, labour disputes, work stoppages or slowdowns at our offices and facilities or any of our clients or suppliers could significantly disrupt our daily operation or our expansion plans and have material and adverse effects on our business.

Inflation in China and measures to contain inflation may negatively affect our profitability and growth.

While the Chinese economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country and among different demographic sectors in the community. If prices for our services and products rise at a rate that is insufficient to compensate for the rise in the costs, our business may be materially and adversely affected. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets, and restrictions on state bank lending. Such austerity measures can lead to a slowing of economic growth in China, which could materially and adversely affect our business, future results of operations and prospects.

Risks Relating to Notes Issued under the Programme

Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors shall pay attention to any modification, waivers and substitution.

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

The Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, agree to (i) any modification (except certain modifications, including increasing quorum requirements relating to meetings) of the Conditions or the Trust Deed which is not materially prejudicial to the interests of the Noteholders or (ii) any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

Investors shall pay attention to the terms and conditions applicable to each Series of Notes issued under the Programme on or after the date of this Offering Circular, which may be different from the terms and conditions applicable to each Series of Notes issued under the Programme prior to the date of this Offering Circular.

Any Series of Notes issued under the Programme on or after the date of this Offering Circular will contain provisions regarding certain definitions, certain covenants including negative pledge and certain events of default, that differ from those applicable to each Series of Notes issued under the Programme prior to the date of this Offering Circular, as amended, supplemented and/or replaced by the relevant Pricing Supplement. See "*Terms and Conditions of the Notes*" applicable to each Series of Notes issued under the Programme on or after the date of this Offering Circular.

The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream, or lodged with a sub-custodian for the CMU Service (each of Euroclear, Clearstream, the CMU Service and DTC). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders or, in the case of the CMU Service, to the persons for whose account(s) interests in such Global Note are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU Service to us in a relevant CMU Instrument Position Report or any other notification by the CMU Service.

A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. We, as the Issuer, do not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

The Issuer may be unable to redeem the Notes.

On certain dates, including the occurrence of any early redemption event specified in the relevant Pricing Supplement or otherwise and at maturity of the Notes, we, as the Issuer, may, and at maturity, will, be required to redeem all of the Notes. If such an event were to occur, we, as the Issuer, may not have sufficient cash on hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Notes would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Group.

The Notes are unsecured obligations.

As the Notes are unsecured obligations, the repayment of the Notes may be adversely affected if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets may not be sufficient to pay amounts due on the Notes.

The Notes will be structurally subordinated to all obligations of the Issuer's existing and future subsidiaries and consolidated affiliated entities.

The Notes will not be guaranteed by any of the Issuer's existing or future subsidiaries and consolidated affiliated entities, who together hold substantially all of the Issuer's operating assets and conduct substantially all of the Issuer's business. The Issuer's subsidiaries and consolidated affiliated entities will have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment. The Notes will be structurally subordinated to all indebtedness and other obligations of the Issuer's subsidiaries and consolidated affiliated entities such that in the event of insolvency, liquidation, reorganisation, dissolution or other winding up of any of the Issuer's subsidiary or consolidated affiliated entity, all of that subsidiary's or consolidated affiliated entity's creditors (including trade creditors) would be entitled to payment in full out of that subsidiary's or consolidated affiliated entity's assets before the Issuer would be entitled to any payment.

In addition, the Trust Deed governing the Notes will, subject to some limitations, permit these subsidiaries and consolidated affiliated entities to incur additional indebtedness and will not contain any limitation on the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries and consolidated affiliated entities.

The terms of the Notes provide only limited protection against significant corporate events that could adversely impact your investment in the Notes.

While the terms of the Notes contain terms intended to provide protection to noteholders upon the occurrence of certain events involving significant corporate transactions and the Issuer's creditworthiness, these terms are limited and may not be sufficient to protect your investment in the Notes. See "*Terms and Conditions of the Notes — Redemption and Purchase*".

The Trust Deed for the Notes also does not:

- require the Issuer to maintain any financial ratios or specific levels of net worth, revenue, income, cash flows or liquidity;
- limit the Issuer's ability to incur indebtedness that is equal in right of payment to the Notes;
- restrict the Issuer's subsidiaries' or consolidated affiliated entities' ability to issue unsecured securities;
- or otherwise incur unsecured indebtedness that would be senior to the Issuer's equity interests in our subsidiaries or consolidated affiliated entities and therefore rank effectively senior to the Notes;

- limit the ability of the Issuer's subsidiaries or consolidated affiliated entities to service indebtedness;

- restrict the Issuer's ability to repurchase or prepay any other of the Issuer's securities or other indebtedness; or

- restrict the Issuer's ability to make investments or to repurchase or pay dividends or make other payments in respect of the Issuer's shares or other securities ranking junior to the Notes.

As a result of the foregoing, when evaluating the terms of the Notes, you should be aware that the terms of the Notes do not restrict the Issuer's ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances and events that could have an adverse impact on your investment in the Notes.

The Notes do not restrict the Group's ability to incur additional debt or to take other actions that could negatively impact holders of the Notes.

Subject to the negative pledge covenant (see "*Terms and Conditions of the Notes — Certain Covenants — Negative Pledge*"), the Group is not restricted under the Terms and Conditions from incurring additional debt, including secured debt, or from repurchasing the Notes. In addition, the covenants applicable to the Notes do not require the Group to achieve or maintain any minimum financial results relating to the Group's financial position or results of operations. The Group's ability to recapitalise, incur additional debt and take other actions that are not limited by the Terms and Conditions could diminish the Group's ability to make payments on the Notes and amortising bonds when due.

Considerations related to a particular issue of Notes.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;

- they may receive no interest;

- the payment of principal or interest may occur at a different time or in a different currency than expected;

- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The regulation and reform of "benchmarks" may adversely affect the value of the Notes linked to or referencing such "benchmarks".

Interest rates and indices which are deemed to be "benchmarks" (including LIBOR and EURIBOR) are the subject of recent guidance and proposals for reform from the European Union (the "**EU**") national and international regulatory bodies. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark". Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the "**Benchmark Regulation**") was published in the Official Journal of the EU on 29 June 2016 and applies from 1 January 2018. The Benchmark Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things: (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed); and (ii) prevents certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmark Regulation could have a material impact on any Notes linked to or referencing benchmarks, including LIBOR or EURIBOR, in particular, if the methodology or other terms of the relevant benchmark are changed in order to comply with the requirements of the Benchmark Regulation. There is a risk that administrators of certain "benchmarks" will fail to obtain the necessary authorisation or registration, preventing them from continuing to provide such "benchmarks". Other administrators may cease to administer certain "benchmarks" because of the additional costs of compliance with the Benchmark Regulation and other applicable regulations, and the risks associated therewith. There is also a risk that certain "benchmarks" may continue to be administered but may in time become obsolete. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the national or international reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks" (including, but not limited to, LIBOR or EURIBOR): (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark"; or (iii) lead to the disappearance of the "benchmark".

Any of the above changes or any other consequential changes as a result of national or international reforms or other initiatives or investigations could have a material adverse effect on the value of and return on any Notes linked to or referencing the relevant benchmark. Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to any Notes linked to or referencing the relevant benchmark.

Future discontinuance of LIBOR may adversely affect the value of Floating Rate Notes which reference LIBOR.

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. On 5 March 2021, the FCA announced that (i) the publication of 24 LIBOR settings will cease immediately after 31 December 2021, (ii) the publication of the overnight and 12-month U.S. dollar LIBOR settings will cease immediately after 30 June 2023, (iii) immediately after 31 December 2021, the 1-month, 3-month and 6-month sterling LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consult on requiring the ICE Benchmark Administration Limited (the "**IBA**") to continue to publish these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after end 2021) and (iv) immediately after 30 June 2023, the 1-month, 3-month and 6-month U.S. dollar LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consider the case for using its proposed powers to require IBA to continue publishing these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after end June 2023).

At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities, including the Floating Rate Notes issued under the Programme, such as the 2023 Floating Rate Notes.

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on the Floating Rate Notes which reference LIBOR will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the LIBOR rate is to be determined under the terms of the Floating Rate Notes, this may: (i) if ISDA Determination applies, be

reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time; or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, the Floating Rate Notes which reference LIBOR.

We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay Additional Amounts because we are treated as a PRC "resident enterprise".

In the event we are treated as a PRC "resident enterprise" under the EIT Law, we may be required to withhold PRC tax on interest paid to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such Additional Amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under Condition 10(b) of the "*Terms and Conditions of the Notes*", in the event we are required to pay Additional Amounts as a result of certain changes in or interpretations of tax law or the stating of an official position regarding the application or interpretation of such law, including any change or interpretation that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC "resident enterprise", we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

We may be able to redeem the Notes prior to maturity.

We may be able to redeem a series of the Notes at our option on a date prior to the maturity date if the relevant pricing supplement specifies this optional redemption. The optional redemption feature of a series of the Notes may limit the market value of such Notes. During any period when we may elect to redeem the Notes, the market value of the Notes may not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may also be expected to redeem the Notes with optional redemption feature when our cost of borrowing is lower than the interest rate on the Notes. At those times, an investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Company fails to complete the post-issuance filing in connection with any Notes required to be registered with NDRC, the NDRC may impose penalties or other administrative procedures on the Company.

On 14 September 2015, the NDRC promulgated the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (關於推進企業發行外債備案登記制管理改革的通知) (the "**NDRC Notice**"), pursuant to which if a Chinese enterprise or an offshore enterprise controlled by a Chinese enterprise wishes to issue bonds outside of China with a maturity of more than one year, such Chinese enterprise must, in advance of issuing such bonds, file certain prescribed documents with the NDRC and obtain a registration certificate from the NDRC in respect of such issue. In addition, the enterprise must also report certain details of the bonds to the NDRC within 10 business days upon the completion of the bond issue.

However, there is no clarity on the legal consequences of non-compliance with the above NDRC post-issuance filing requirement under the additional guidance issued by the NDRC (企業境外發行債券指引) (the "**NDRC Notice Guidelines**"), on 18 December 2015, which states that companies, investment banks, law firms and other intermediaries involved in debt securities issuances which do not comply with the registration requirement under the NDRC Notice will be subject to a blacklist and sanctions. The NDRC Notice Guidelines are silent as to how such blacklist will be implemented or the exact sanctions that will be enacted by the NDRC, or any impact on the noteholders, in the event of a non-compliance by

us with the NDRC Notice. There is no assurance that the NDRC will not issue further implementation rules or notices which may require additional steps in terms of the registration or provide sanctions or other administrative procedures the NDRC may impose in case of failure to complete the post-issuance filing with the NDRC.

Enforcing your rights as a holder of the Notes across multiple jurisdictions may be difficult.

We are registered in the Cayman Islands, and conduct most of our operations in China through our WFOEs and consolidated affiliated entities in China. All of our Directors are nationals or residents of countries other than the United States. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon our Directors and officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

It may also be difficult or impossible for you to bring an action against us or against our Directors and officers in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws of the United States. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgement against our assets or the assets of our Directors and officers. We have been advised by our Cayman Islands legal counsel, Maples and Calder (Hong Kong) LLP, that the courts of the Cayman Islands are unlikely (i) to recognise or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any State; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us predicated upon the civil liability provisions of the securities laws of the United States or any State, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognise and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For such a foreign judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands Court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgement of courts.

We have been advised by PRC and Cayman Islands counsel that there is doubt as to the enforceability, in original actions in PRC or Cayman Islands courts, of liabilities based on the United States federal securities laws or the securities or "blue sky" laws of any state within the United States and as to the enforceability in PRC or Cayman Islands courts of judgements of United States courts obtained in actions based on the civil liability provisions of the United States federal securities laws or any such state securities or blue sky laws.

As a result of all of the above, your rights under the Notes may thus be subject to the laws of several jurisdictions, and you may not be able to effectively enforce your rights in multiple legal, bankruptcy and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly and often result in substantial uncertainty and delay.

Risks Relating to Renminbi Denominated Notes

Notes denominated in Renminbi (the "**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Investment in the Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the Chinese and international political and economic conditions as well as many other factors. The Issuer will make all payments of interest and principal with respect to the Renminbi Notes in Renminbi. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the Hong Kong dollar or other foreign currencies, the value of the investment made by a holder of the Renminbi Notes in Hong Kong dollars or any other foreign currency terms will decline.

Renminbi is not freely convertible; there are significant restrictions on the remittance of Renminbi into and outside of China. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts.

There is no assurance that the PRC government will continue to gradually liberalise control over cross-border Renminbi remittances in the future or that new PRC regulations will not be promulgated in the future which have the effect of restricting the remittance of Renminbi into or outside China. In the event that the Group is not able to repatriate funds outside China in Renminbi, the Issuer will need to source Renminbi offshore to finance the Issuer's obligations under Renminbi Notes, and the Issuer's ability to do so will be subject to the overall availability of Renminbi outside China.

There is only limited availability of Renminbi outside China, which may affect the liquidity of the Renminbi Notes and the Issuer's ability to source Renminbi outside China to service the Renminbi Notes.

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside China is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licenced banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. The PBOC has also established a Renminbi clearing and settlement system for participating banks in Hong Kong and ten other countries and territories. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of Renminbi Business (香港人民幣業務清算協議), (the "**Settlement Agreement**") between the PBOC and Bank of China (Hong Kong) Limited (the "**RMB Clearing Bank**") to further expand the scope of Renminbi business for participating banks in Hong Kong.

Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no longer any limit (other than as provided in the following paragraph) on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong.

However, the current size of Renminbi-denominated financial assets outside China is limited. In addition, although participating banks are no longer required by the Hong Kong Monetary Authority to apply a minimum Renminbi liquidity ratio of 25%, they are still required to account for Renminbi together with other currencies on the same basis as the statutory liquidity ratio. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for Hong Kong residents of up to RMB20,000 per person per day. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside China may affect the liquidity of Renminbi Notes. To the extent we, as the Issuer, are required to source Renminbi in the offshore market to service Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes cleared through the CMU Service will be made solely by (i) when Renminbi Notes are represented by Global Notes or Global Note Certificates cleared through the CMU Service, transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and procedures of the CMU Service, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in China).

Risks Relating to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Issuer's financial condition. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application will be made for the Notes issued under the Programme to be listed on, and permitted to deal in, the SEHK, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so listed or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes. In addition, Notes issued in definitive form pursuant to the terms of the Programme may be illiquid and difficult to trade if issued in denominations that are not an integral multiple of the minimum specified denomination.

The credit ratings assigned to the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period or that the ratings will be revised by the rating agencies in the future if, in their judgement, the circumstances so warrant. A downgrade in the ratings of any Notes may effect the market price of the Notes.

Bearer Notes

Each Series of Notes to be issued in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Series of the Notes with a depositary or a common depositary for Euroclear as operator of the Euroclear System and/or Clearstream and/or any other relevant clearing system and/or a sub-custodian for the CMU Service.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether rules in substantially the same form as U.S. Treasury Regulation § 1.163 — 5(c)(2)(i)(C) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**C Rules**") or rules in substantially the same form as U.S. Treasury Regulation §1.163 — 5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) or are in registered form for U.S. federal income tax purposes, that neither the C Rules nor the D Rules are applicable. Notes issued in compliance with the D Rules must be initially issued in the form of a Temporary Global Note. Whilst any Bearer Note issued under the D Rules is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification generally to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and/or any other relevant clearing system, and Euroclear and/or Clearstream, or other relevant clearing system, as applicable, has given a like certification (based on the certifications it has received) to the relevant Paying Agent (or in the case of Bearer Notes held through the CMU Service, received by the CMU Lodging Agent from CMU Members).

Bearer Notes issued in compliance with the D Rules will be issued through the CMU only if the CMU Members and the CMU Lodging Agent have procedures in place for the certification of non-U.S. beneficial ownership as required under the D Rules.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be issued in the form of a Temporary Global Note, interests in which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, from the date (the "**Exchange Date**") which is 40 days after the issue date of the relevant Tranche of the Notes, which exchange, if the relevant Pricing Supplement specifies that the D Rules are applicable, will be made only to the extent that certification as to non-U.S. beneficial ownership has been received in compliance with the D Rules. No payments will be made under the Temporary Global Note after the Exchange Date unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of Temporary Global Notes subject to the D Rules cannot be collected without such certification of non-U.S. beneficial ownership, as described above.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and

(ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership, as described above.

within seven days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the C Rules are applicable or that neither the C Rules nor the D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than the Exchange Date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the D Rules are applicable, then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes on or after the Exchange Date for the relevant Tranche of the Notes to the extent that certification as to non-U.S. beneficial ownership has been received as described above. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note and in the case where the D Rules are applicable, subject to certification as to non-U.S. beneficial ownership, as described above, to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be issued in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) at any time, if so specified in the relevant Pricing Supplement; or

(iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following event occurs:

  (a) Euroclear or Clearstream, the CMU Service or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

  (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs in respect of any Note of the relevant Tranche.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Notes issued as Permanent Global Notes may not be issued using the D Rules.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days (taking into account any unilateral rights to extend or rollover), the Notes in global form, the Notes in definitive form, each Bearer Note and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(f) AND 1287(a) OF THE U.S. INTERNAL REVENUE CODE."

The sections referred to provide that United States persons, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Registered Notes

Each Tranche of Notes in registered form ("**Registered Notes**") will be represented by either:

(i) individual Note Certificates in registered form ("**Individual Note Certificates**"); or

(ii) one or more unrestricted global note certificates ("**Unrestricted Global Note Certificate(s)**") in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S ("**Unrestricted Notes**") and/or one or more restricted global note certificates ("**Restricted Global Note Certificate(s)**") in the case of Registered Notes sold to QIBs in reliance on Rule 144A ("**Restricted Notes**"),

in each case as specified in the relevant Pricing Supplement, and references in this Offering Circular to "Global Note Certificates" shall be construed as a reference to Unrestricted Global Note Certificates and/or Restricted Global Note Certificates.

Each Note represented by a Restricted Global Note Certificate will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC or, as the case may be, in the name of the common depositary (or its nominee) for Euroclear and/or Clearstream and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the custodian for DTC (the "**DTC Custodian**") or a depositary of the common depositary for Euroclear and/or Clearstream. Beneficial interests in Notes represented by a Restricted Global Note Certificate may be held through DTC or, as the case may be, Euroclear and/or Clearstream at any time.

Each Note represented by an Unrestricted Global Note Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream and/or any other relevant clearing system or in the name of Cede & Co. as nominee for DTC, and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common depositary or the DTC Custodian.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Note Certificate exchangeable for Individual Note Certificates

If the relevant Pricing Supplement specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be represented by one or more Global Note Certificates, each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) at any time, if so specified in the relevant Pricing Supplement; or

(iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Note Certificate", then:

  (a) in the case of any Global Note Certificate held by or on behalf of DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or if at any time DTC is no longer eligible to act as such, and the relevant Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC;

  (b) in the case of any Unrestricted Global Note Certificate held by or on behalf of, Euroclear and/or Clearstream and/or any other clearing system (other than DTC), if Euroclear, Clearstream or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and

  (c) in any case, if any of the circumstances described in Condition 14 (*Events of Default*) occurs in respect of any Note of the relevant Tranche.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding). In addition, whenever a Restricted Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in the Restricted Global Note Certificate must provide the Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Note Certificate stating either (i) that such holder is not transferring its interest at the time of such exchange or (ii) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. Individual Note Certificates issued in exchange for interests in the Restricted Global Note Certificate will bear the legends and be subject to the transfer restrictions set out under "*Transfer Restrictions*".

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by the Issuer for 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.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note issued in definitive form under the Programme on or after the date of this Offering Circular. The terms and conditions applicable to any Note in global form will differ from the terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below. The maximum aggregate principal amount of the Notes outstanding at any one time under the Programme has been increased to US$30,000,000,000 with effect from 13 April 2021. Solely for the purpose of the interpretation only, the definition "PRC" used in the Terms and Conditions shall be construed in the context of the laws and regulations of the People's Republic of China, exclusive of the laws and regulations of Hong Kong, Macau and Taiwan.

1. Introduction

(a) *Programme*: Tencent Holdings Limited (the "**Issuer**") has established a Global Medium Term Note Programme (the "**Programme**") for the issuance of up to US$20,000,000,000 (as may be increased from time to time) in aggregate principal amount of notes (the "**Notes**").

(b) *Pricing Supplement:* Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. The terms and conditions applicable to any particular Tranche of Notes are set out in the relevant pricing supplement (the "**Pricing Supplement**") which supplements, amends and/or replaces these terms and conditions (the "**Conditions**"). In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) *Trust Deed*: The Notes are constituted by, are subject to, and have the benefit of, an amended and restated trust deed dated 25 May 2020 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and DB Trustees (Hong Kong) Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed). The Issuer and the Trustee entered into a trust deed on 10 April 2014, which is amended and supplemented by an amended and restated trust deed dated 24 April 2015, and an amended and restated trust deed dated 1 April 2019 between the Issuer and the Trustee, and further amended and supplemented by the Trust Deed.

(d) *Agency Agreement*: The Notes are the subject of an amended and restated issue and paying agency agreement dated 24 April 2015 (which amends and supplements the issue and paying agency agreement dated 10 April 2014, the "**Agency Agreement**") between the Issuer, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch as exchange agent (the "**Exchange Agent**", which expression includes any successor exchange agent appointed from time to time in connection with the Notes), Deutsche Bank Trust Company Americas, Deutsche Bank AG, Hong Kong Branch and Deutsche Bank Luxembourg S.A. as registrars (each, a "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch as CMU lodging agent (the "**CMU Lodging Agent**", which expression includes any successor CMU lodging agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent and the CMU Lodging Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the transfer agents named therein (together with the Registrars, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the Trustee. In these Conditions references to the "**Agents**" are to the Paying Agents, the Exchange Agent and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such reference shall be construed accordingly.

(e) *The Notes:* The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are not exchangeable to Bearer Notes or vice versa. No single tranche or series may comprise both Bearer Notes and Registered Notes. Bearer Notes will not be sold in the United States or to U.S. persons. All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from the Specified Office of each of the Paying Agents and Transfer Agents.

(f) *Summaries:* Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of the Paying Agents.

2. Interpretation

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**", other than in Condition 3(g) (Registration and delivery of Note Certificates) means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;

(ii) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and

(iii) for the purposes of Notes denominated in Renminbi only, any day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Principal Paying Agent or such other Person, in each case as specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" has the meaning given in the relevant Pricing Supplement;

"**Capital Stock**" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Shares and limited liability or partnership interests (whether general or limited), but excluding any debt securities convertible or exchangeable into such equity;

"**CMU Service**" means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

"**Consolidated Affiliated Entity**" of any Person means any corporation, association or other entity which is or is required to be consolidated with such Person under International Financial Reporting Standards 10, Consolidated Financial Statements (including any changes, amendments or supplements thereto) or, if such person prepares its financial statements in accordance with accounting principles other than IFRS, the equivalent of International Accounting Standards 27, Consolidated and Separate Financial Statements under such accounting principles. Unless otherwise specified herein, each reference to a Consolidated Affiliated Entity will refer to a Consolidated Affiliated Entity of the Issuer;

"**Controlled Entity**" of any Person means a Subsidiary or a Consolidated Affiliated Entity of such Person;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(i) if "Actual/Actual (ICMA)" is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year;

(ii) if "Actual/365" or "Actual/Actual (ISDA)" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textbf{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textbf{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textbf{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Triggering Event)**" means, in respect of any Note, 101 per cent. of its principal amount or such other amount as may be specified in, or determined in accordance with the relevant Pricing Supplement;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended; "Extraordinary Resolution" has the meaning ascribed to it in the Trust Deed;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement; "Fixed Coupon Amount" has the meaning given in the relevant Pricing Supplement; "Group" means the Issuer and its Controlled Entities, taken as a whole;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer — Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer — Title to Registered Notes*);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the PRC;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.) unless otherwise specified in the relevant Pricing Supplement;

"**Issue Date**" has the meaning given in the relevant Pricing Supplement;

"**Lien**" means any mortgage, charge, pledge, lien or other form of encumbrance or security interest;

"**Margin**" has the meaning given in the relevant Pricing Supplement;

"**Material Controlled Entities**" means any Non-listed Controlled Entities of the Issuer:

(i) whose total revenue (consolidated in the case of a Non-listed Controlled Entity which has Non-listed Controlled Entities) as shown by its latest audited income statement attributable to the Issuer is at least 10% of the consolidated total revenue as shown by the latest issued audited consolidated income statement of the Issuer and its consolidated Controlled Entities; or

(ii) whose net income (consolidated in the case of a Non-listed Controlled Entity which has Non-listed Controlled Entities) as shown by its latest audited income statement attributable to the Issuer, is at least 10% of the consolidated net income as shown by the latest issued audited consolidated income statement of the Issuer and its consolidated Controlled Entities; or

(iii) whose net assets (consolidated in the case of a Non-listed Controlled Entity which itself has Non-listed Controlled Entities) as shown by its latest audited balance sheet, are at least 10% of the consolidated net assets of the Issuer and its Controlled Entities as shown by the latest issued audited consolidated balance sheet of the Issuer and its Controlled Entities, including the investment of the Issuer and its consolidated Controlled Entities in each Controlled Entity whose accounts are not consolidated with the consolidated audited accounts of the Issuer and of associated companies and after adjustment for minority interests;

provided that, in the case of each of (i), (ii) and (iii) above:

(a) in the case of a corporation or other business entity becoming a Non-listed Controlled Entity after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer and its Non-listed Controlled Entities for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Non-listed Controlled Entity are issued, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer and its Non-listed Controlled Entities adjusted to consolidate the latest audited accounts (consolidated in the case of a Non-listed Controlled Entity which itself has Non-listed Controlled Entities) of such Non-listed Controlled Entity in such accounts;

(b) if at any relevant time in relation to the Issuer or any Non-listed Controlled Entity which itself has Non-listed Controlled Entities, no consolidated accounts are prepared and audited, total revenue, net income or net assets of the Issuer and/or any such Non-listed Controlled Entity shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Issuer;

(c) if at any relevant time in relation to any Non-listed Controlled Entity, no accounts are audited, its net assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Non-listed Controlled Entity prepared for this purpose by or on behalf of the Issuer; and

(d) if the accounts of any Non-listed Controlled Entity (not being a Non-listed Controlled Entity referred to in proviso (a) above) are not consolidated with those of the Issuer, then the determination of whether or not such Non-listed Controlled Entity is a Material Controlled Entity shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer; or

(iv) any Non-listed Controlled Entity of the Issuer to which is transferred all or substantially all of the assets of a Non-listed Controlled Entity which immediately prior to such transfer was a Material Controlled Entity, *provided that* the Material Controlled Entity which so transfers its assets shall forthwith upon such transfer cease to be a Material Controlled Entity and the Non-listed Controlled Entity to which the assets are so transferred shall become a Material Controlled Entity at the date on which the first issued audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued unless such Non-listed Controlled Entity would continue to be a Material Controlled Entity on the basis of such accounts by virtue of the provisions of paragraphs (i), (ii) or (iii) above,

An Officers' Certificate stating that, in their opinion, a Non-listed Controlled Entity is or is not, or was or was not, a Material Controlled Entity shall, in the absence of manifest error, be conclusive and binding on all parties. The Officers' Certificate shall, if there is a dispute as to whether any Non-listed Controlled Entity of the Issuer is or is not a Material Controlled Entity be accompanied by a report by an internationally recognised firm of accountants addressed to the directors of the Issuer as to proper extraction of the figures used by the Issuer in determining the Material Controlled Entities of the Issuer and mathematical accuracy of the calculation;

"**Maturity Date**" has the meaning given in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Non-listed Controlled Entities**" means the Controlled Entities of the Issuer other than (i) any Controlled Entities with shares of common stock or other common equity interests listed on an internationally recognised stock exchange; and (ii) any Subsidiaries or Consolidated Affiliated Entities of any Controlled Entity referred to in clause (i) of this definition;

"**Non-recourse Obligations**" means any Indebtedness substantially related to (i) the acquisition of assets not previously owned by the Issuer or any of the Controlled Entities or (ii) the financing of a project involving the purchase, development, improvement or expansion of properties of the Issuer or any of the Controlled Entities, as to which the obligee with respect to such Indebtedness or obligation has no recourse to the Issuer or any of the Controlled Entities or to the Issuer's or any such Controlled Entity's assets other than the assets which were acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (and the proceeds thereof);

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer — Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer — Title to Registered Notes*);

"**Officer**" means the chairman of the Board, the chief executive officer, the president, the chief financial officer, any vice president, the treasurer or the secretary of the Issuer, or in the event that the Issuer is a partnership or a limited liability company that has no such officers, a person duly authorised under applicable law by the general partner, managers, members or a similar body to act on behalf of the Issuer;

"**Officers' Certificate**" means a certificate signed by two Officers of the Issuer, one of whom is the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer, or by an Officer and either an assistant treasurer or an assistant secretary of the Issuer;

"**Opinion of Counsel**" means an opinion (in form and substance acceptable to the Trustee) of independent legal advisers of recognised international standing that is acceptable to the Trustee;

"**Optional Redemption Amount** (**Call**)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Date** (**Call**)" has the meaning given in the relevant Pricing Supplement;

"**Optional Redemption Date** (**Put**)" has the meaning given in the relevant Pricing Supplement;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

(A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(B) in the case of payment by transfer to an account, (a) a TARGET Settlement Day and (b) a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means, for the purpose of these Conditions, the People's Republic of China excluding Hong Kong, Macau and Taiwan;

"**Preferred Shares**" as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends upon liquidation, dissolution or winding up;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

(ii) in relation to Australian dollars, it means Sydney and in relation to New Zealand dollars, it means Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent or, in each case, the principal financial centre as is specified in the applicable Pricing Supplement; and

(iii) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Redemption Amount (Triggering Event), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"**Reference Banks**" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Issuer and approved by the Trustee in the market that is most closely connected with the Reference Rate and notified in writing to the Calculation Agent;

"**Reference Price**" has the meaning given in the relevant Pricing Supplement;

"**Reference Rate**" has the meaning given in the relevant Pricing Supplement;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Pricing Supplement;

"**Relevant Indebtedness**" means any Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market, except (i) any Indebtedness in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities initially offered, marketed or issued primarily to Persons resident in the PRC and dominated in Renminbi and (ii) any Non-recourse Obligations;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Securities Act**" means the United States Securities Act of 1933, as amended;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**SEHK**" means The Stock Exchange of Hong Kong Limited;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)**" has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

"**Subsidiary**" of any person means (i) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50 per cent. of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or Persons performing similar functions) or (ii) any partnership, joint venture limited liability company or similar entity of which more than 50 per cent. of the capital accounts, distribution rights, total equity and voting; or interests or general or limited partnership interests, as applicable, is, in the case of clauses (i) and (ii), at the time owned or controlled, directly or indirectly, by (A) such Person, (B) such Person and one or more Subsidiaries of such Person or (C) one or more Subsidiaries of such Person; unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Issuer;

"**Talon**" means a talon for further Coupons;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**Total Equity**" means, as of any date, the total equity attributable to the Issuer's shareholders on a consolidated basis determined in accordance with IFRS, as shown on the Issuer's most recently published audited annual financial statements;

"**Treaty**" means the Treaty establishing the European Communities, as amended;

"**Voting Stock**" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors, managers or trustees, as applicable, of such Person; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(a) ***Interpretation***: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any Additional Amounts (as defined in Condition 13 (*Taxation*)), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any Additional Amounts and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Trust Deed;

(vii) if an expression is stated in Condition 2(a) (*Interpretation — Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the Notes; and

(viii) any reference to the Trust Deed or the Agency Agreement shall be construed as a reference to the Trust Deed or the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form, Denomination, Title and Transfer

(a) ***Bearer Notes***: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination. Bearer Notes issued in compliance with United States Treasury Regulation § 1.163 — 5(c)(2)(i)(D) or any successor provision for purposes of Section 4701 of the US Internal Revenue Code ("**TEFRA D**") must be initially represented by a Temporary Global Note exchangeable for interests in a Permanent Global Note or definitive Bearer Notes upon certification of non-U.S. beneficial ownership in accordance with the TEFRA D rules.

(b) ***Title to Bearer Notes***: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) ***Registered Notes***: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.

(d) ***Title to Registered Notes***: The relevant Registrar will maintain a register outside the United Kingdom in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**"). In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) ***Ownership***: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(f) ***Transfers of Registered Notes***: Subject to paragraphs (i) (Closed periods) and (j) (Regulations concerning transfers and registration) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as such Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) ***Registration and delivery of Note Certificates***: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) ***No charge***: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the relevant Registrar or any Transfer Agent but against such indemnity by the transferor as the such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) ***Closed periods***: Noteholders may not require transfers to be registered:

(i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes;

(ii) during the period of 15 days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 10(b) (*Redemption for tax reasons*) or Condition 10(c) (*Redemption at the option of the Issuer*); and

(iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 10(e) (*Redemption at the option of the Noteholders*) or Condition 10(f) (*Redemption for Triggering Event*).

(j) ***Regulations concerning transfers and registration***: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the relevant Registrar. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Noteholder who requests in writing a copy of such regulations.

*Notwithstanding anything contained in these Conditions, for so long as any of the Notes is represented by a Global Note or a Global Note Certificate held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream**") and/or The Depository Trust Company ("**DTC**") and/or the CMU Service (as the case may be), each person (other than Euroclear or Clearstream, DTC or the CMU Service) who is for the time being shown in the records of Euroclear or of Clearstream or of DTC or of the CMU Service as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream or DTC or the CMU Service as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents, the Registrars, the Exchange Agent and the Transfer Agents as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such principal amount of such Notes, for which purpose the bearer of the relevant Global Note or the registered holder of the relevant Global Note Certificate shall be treated by the Issuer, any Paying Agent, any Transfer Agent, any Registrar and the Exchange Agent as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note or Global Note Certificate, and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notes which are represented by a Global Note or a Global Note Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, DTC and the CMU Service as the case may be. References to Euroclear, Clearstream, DTC and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Trustee, the CMU Lodging Agent, as the case may be.*

4. Status

The Notes and any related Receipts and Coupons constitute direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which will at all times rank (i) equally without any preference among themselves; (ii) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application; (iii) senior in right of payment to all of the Issuer's existing and future indebtedness expressly subordinated in right of payment to the Notes; (iv) be effectively subordinated to all of the Issuer's existing and future secured indebtedness, to the extent of the value of the assets serving as security therefor; and (v) be structurally subordinated to all existing and future indebtedness and other liabilities of the Issuer's Controlled Entities.

5. Certain Covenants

(a) Negative Pledge

So long as any Note remains outstanding, the Issuer will not create or have outstanding, and the Issuer will ensure that none of its Material Controlled Entities will create or have outstanding, any Lien upon the whole or any part of their respective present or future undertaking, assets or revenues (including any uncalled capital) securing any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness of either of the Issuer or any Material Controlled Entities, without (a) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (b) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution of Noteholders.

(b) Consolidation, Merger and Sale of Assets

The Issuer will not consolidate with or merge into any other Person in a transaction in which the Issuer is not the surviving entity, or sell, assign, convey, transfer, lease or otherwise dispose its properties and assets substantially as an entirety to any Person unless:

(i) any Person formed by such consolidation or into which the Issuer is merged or to whom the Issuer has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the jurisdiction of the Cayman Islands or Hong Kong and such Person expressly assumes by a supplemental documentation all the obligations of the Issuer under the Notes, including the obligations to pay Additional Amounts in respect of principal, premium and interest which may be payable under Condition 13 (*Taxation*) with respect to any jurisdiction in which it is organised or resident for tax purposes, subject to exclusions equivalent to those contained in Condition 13 (*Taxation*);

(ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred; and

(iii) the Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease complies with the Conditions and that all conditions precedent therein provided for relating to such transaction have been complied with.

(c) Reports

(i) So long as any Notes remain outstanding, the Issuer will file with the Trustee and furnish to the Noteholders upon request, as soon as they are available but in any event not more than 30 calendar days after they are filed with SEHK or, if the Issuer's common shares are no longer listed on the SEHK, any other recognised exchange on which the Issuer's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided that* if at any time the common shares of the Issuer ceases to be listed for trading on a recognised stock exchange, the Issuer will file with the Trustee and furnish to the holders upon request:

(A) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Issuer, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement and a year-to-year comparison to the prior year) audited by a member firm of an internationally recognised firm of independent accountants;

(B) as soon as they are available, but in any event within 90 calendar days after the end of the first semi-annual fiscal period of the Issuer, copies of its unaudited financial statements (on a consolidated basis) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement and a period-to-period comparison to the first semi-annual fiscal period of the prior year) prepared on a basis consistent with the audited financial statements of the Issuer and reviewed by a member firm of an internationally recognised firm of independent accountants, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Issuer to the effect that such financial statements are true in all material respects and present fairly the financial position of the Issuer as at the end of, and the results of its operations for, the relevant semi-annual period;

(C) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third fiscal quarters of the Issuer, copies of the unaudited financial statements (on a consolidated basis) in respect of such fiscal quarter (including a statement of income, balance sheet and cash flow statement and a period-to-period comparison to the relevant fiscal quarter of the prior year) prepared on a basis consistent with the audited financial statements of the Issuer, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Issuer to the effect that such financial statements are true in all material respects and present fairly the financial position of the Issuer as at the end of, and the results of its operations for, the relevant fiscal quarter; and

(D) as soon as possible and in any event within 14 calendar days after the Issuer becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an Officers' Certificate of the Issuer setting forth the details thereof and the action the Issuer is taking or proposes to take with respect thereto.

(ii) So long as any Notes representing Restricted Notes (as defined in the Trust Deed) remain outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer will furnish, upon the request of any holder of a beneficial interest in such Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such holder or beneficial owner or to a prospective purchaser of the Note or interest therein who is a qualified institutional buyer within the meaning of Rule 144A, to the extent required to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of the Note or beneficial interest therein in reliance on Rule 144A unless, at the time of such request, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from the registration requirements of Section 12(g) of the Exchange Act pursuant to Rule 12g3-2(b) under the Exchange Act.

6. Fixed Rate Note Provisions

(a) ***Application***: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Conditions 11 (*Payments — Bearer Notes*) and 12 (*Payments — Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Fixed Coupon Amount***: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) ***Calculation of interest amount***: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note and Index-Linked Interest Note Provisions

(a) ***Application***: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Conditions 11 (*Payments — Bearer Notes*) and 12 (*Payments — Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Screen Rate Determination***: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the Relevant Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Relevant Period were the period of time for which rates are available next longer than the length of the relevant Interest Period; provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Issuer, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(vi) notwithstanding the foregoing, if the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:

(A) the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears on the Relevant Screen Page as at 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question as determined by the Calculation Agent.

(B) and the Relevant Screen Page is not available or, if sub-paragraph (v)(A)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if subparagraph (v)(A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request the principal Hong Kong office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.15 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent. If all four Reference Banks provide the Calculation Agent with such offered quotations, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations;

(C) if subparagraph (v)(B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in CNH for a period equal to that which would have been used for the Reference Rate by leading banks in the Hong Kong inter-bank market. If fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of

Interest shall be (i) the offered rate for deposits in CNH for a period equal to that which would have been used for the Reference Rate by a bank, or (ii) the arithmetic mean of the offered rates for deposits in CNH for a period equal to that which would have been used for the Reference Rate by two or more banks, in each case as informed to the Calculation Agent by such bank or banks (which shall be such bank or banks being in the opinion of the Issuer suitable for such purpose) as being quoted by each such bank at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date to leading banks in the Hong Kong inter-bank market, *provided that*, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period); and

(D) in no event shall the Rate of Interest be less than zero per cent. per annum.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(d) ***ISDA Determination***: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement;

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate (LIBOR), (y) the Eurozone inter-bank offered rate (EURIBOR) or (z) the Hong Kong inter-bank offered rate (HIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement; and

(iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(e) ***Index-Linked Interest***: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) ***Maximum or Minimum Rate of Interest***: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) ***Calculation of Interest Amount***: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) ***Calculation of other amounts***: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) ***Publication***: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee and Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period, unless the Trustee otherwise requires. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) ***Notifications etc.***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Zero Coupon Note Provisions

(a) ***Application***: This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) ***Late payment on Zero Coupon Notes***: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Dual Currency Note Provisions

(a) ***Application***: This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) ***Rate of Interest***: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. Redemption and Purchase

(a) ***Scheduled redemption***: Unless previously redeemed, or purchased and cancelled, each Note will be redeemed at its Final Redemption Amount on the Maturity Date, subject as provided in Conditions 11 (*Payments — Bearer Notes*) and 12 (*Payments — Registered Notes*).

(b) ***Redemption for tax reasons***: the Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if, before giving such notice, the Issuer (or a successor) satisfies the Trustee that:

(A) the Issuer or a successor has or will become obliged to pay Additional Amounts as provided or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands, the PRC or other jurisdiction of incorporation or tax residence or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective or interpretation or position is announced on or after the date of issuance of the Tranche of the Notes being redeemed, or in the case that the taxing jurisdiction is other than the Cayman Islands or the PRC on or after the date that the relevant jurisdiction's taxes, duties, assessments or governmental charges became subject to the provisions of Condition 13 (*Taxation*) pursuant to condition 13(c); and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall procure that there is delivered to the Trustee (A) an Officers' Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (B) an Opinion of Counsel to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

The Trustee shall be entitled without further enquiry to accept and rely upon such Officers' Certificate and Opinion of Counsel as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the holders of the Notes, Receipts and Coupons.

(c) ***Redemption at the option of the Issuer***: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 10 nor more than 60 days' notice to the Noteholders (which notice shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice, on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date). Any redemption or a notice of any redemption at the option of the Issuer may, at the Issuer's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of an equity offering, a financing, or other corporate transaction. In addition, if such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice shall state that, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied (or waived by the Issuer in its sole discretion), or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied (or waived by the Issuer in its sole discretion) by the redemption date, or by the redemption date so delayed.

(d) ***Partial redemption***: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Trustee approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) ***Redemption at the option of the Noteholders***: If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes. For as long as Bearer Notes issued under TEFRA D are represented by a temporary Global Note, a holder's Put Option will be available only to the extent that the certifications required under TEFRA D with respect to non-U.S. beneficial ownership has been received by the Issuer or Agent.

(f) ***Redemption for Triggering Event***: If a Triggering Event occurs, unless the Issuer has exercised its right to redeem the Notes under Condition 10 (Redemption for tax reasons) or Condition 10(c) (*Redemption at the option of the Issuer*), it will be required to make an offer to repurchase all or, at the Noteholder's option, any part, of each Noteholder's Notes pursuant to the offer described below (the "**Triggering Event Offer**") on the terms set forth in the Trust Deed and the Notes. In the Triggering Event Offer, the Issuer will be required to offer payment in cash equal to the Early Redemption Amount (Triggering Event) plus accrued and unpaid interest, if any, on the Notes repurchased to, but not including, the date of purchase (the "**Triggering Event Payment**").

Within 30 days following any Triggering Event, the Issuer shall give notice to Noteholders, the Trustee and the Principal Paying Agent in accordance with Condition 22 (Notices), which notice shall describe the transaction or transactions that constitute the Triggering Event and set forth an offer to repurchase the Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is given (the "**Triggering Event Put Date**"), pursuant to the procedures required by the Notes and described in such notice.

To exercise such right, the holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Triggering Event Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed. A Triggering Event Put Exercise Notice, once delivered, shall be irrevocable.

On the Triggering Event Put Date, the Issuer shall be required, to the extent lawful, to:

(i) accept for payment all Notes or portions of Notes properly tendered pursuant to the Triggering Event Offer;

(ii) deposit with the Principal Paying Agent an amount equal to the Triggering Event Payment in respect of all Notes or portions of Notes properly tendered; and

(iii) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

In this Condition 10(f) (*Redemption for Triggering Event*):

"**Triggering Event**" means (i) any change in or amendment to the laws, regulations and rules of the PRC or the interpretation or application thereof ("**Change in Law**") that results in (A) the Group (as in existence immediately subsequent to such Change in Law), as a whole, being legally prohibited from operating substantially all of the business operations conducted by the Group (as in existence immediately prior to such Change in Law) as of the last date of the period described in the consolidated financial statements of the Issuer for the most recent fiscal quarter and (B) the Issuer being unable to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law) in the same manner as reflected in the consolidated financial statements of the Issuer for the most recent fiscal quarter; and (ii) the Issuer has not furnished to the Trustee, prior to the date that is twelve months after the date of the Change in Law, an Opinion of Counsel or an opinion from an Independent Financial Advisor stating either (A) the Issuer is able to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law), taken as a whole, as reflected in the consolidated financial statements of the Issuer for the most recent fiscal quarter (including after giving effect to any corporate restructuring or reorganisation plan of the Issuer) or (B) such Change in Law would not materially adversely affect the Issuer's ability to make principal, premium (if any) and interest payments on the Notes when due; and

"**Independent Financial Advisor**" means an accounting, appraisal, investment banking firm or consultant of nationally recognised standing that is acceptable to the Trustee;

(g) ***Early redemption of Zero Coupon Notes***: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) ***Purchase***: The Issuer or any of its Controlled Entities may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

(i) ***Cancellation***: All Notes so redeemed or purchased by the Issuer or any of its Controlled Entities and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11. Payments — Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

(a) ***Principal***: Payments of principal and premium shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

(b) ***Interest***: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

Payments of principal, premium and interest in respect of Bearer Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) ***Payments in New York City***: Payments of principal, interest or premium may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the principal, premium and interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such principal, premium and interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) ***Payments subject to fiscal laws***: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but (except as described in (ii) below) subject to the provisions of Condition 13 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any intergovernmental agreement with respect thereto, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Deductions for unmatured Coupons***: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than

the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(f) ***Unmatured Coupons void:*** If the relevant Pricing Supplement specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption and Purchase — Redemption for tax reasons*), Condition 10(c) (*Redemption and Purchase — Redemption at the option of the Issuer*), Condition 10(e) (*Redemption and Purchase — Redemption at the option of the Noteholders*), Condition 10(f) (*Redemption and Purchase — Redemption for Triggering Event*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) ***Payments on business days***: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) ***Payments other than in respect of matured Coupons***: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(i) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) ***Exchange of Talons***: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 16 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Payments — Registered Notes

This Condition 12 is only applicable to Registered Notes.

(a) ***Principal***: Payments of principal and premium shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) ***Interest***: Payments of interest shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

Payments of principal, premium and interest in respect of Registered Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) ***Payments subject to fiscal laws***: All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but (except as described in (ii) below) subject to the provisions of Condition 13 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any intergovernmental agreement with respect thereto or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) ***Payments on business days***: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal, premium and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) ***Record date***: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

13. Taxation

(a) All payments of principal, premium and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands, the PRC or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note or Coupon:

(i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of it or a beneficial owner having or having had some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) held by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon (where presentation is required) to another Paying Agent; or

(iii) where the relevant Note or Coupon or Note Certificate is presented (where presentation is required) or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such Additional Amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or

(iv) where the tax, duty, assessment or governmental charge would not have been imposed but for the failure by the Holder of such Note or Coupon or the beneficial owner thereof to comply with any request of the Issuer, addressed to the Holder, to provide certification or information concerning the nationality, residence or identity of the Holder or beneficial owner of the Note, to the extent such certification or information is required under the laws of the relevant taxing jurisdiction in order to reduce or eliminate the deduction or withholding.

(b) Nor will any Additional Amounts be paid with respect to any tax, duty, assessment or governmental charge (i) required to be withheld or deducted by sections 1471 through 1474 of the Code ("**FATCA**"), any current or future U.S. Treasury regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction pursuant to the implementation of FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA or any intergovernmental agreement with respect thereto, or any other agreement pursuant to the implementation of FATCA, (ii) imposed other than by way of withholding or (iii) imposed on a payment to a Holder that is a fiduciary, partnership or person other than the beneficial owner to the extent that under the tax laws of the relevant taxing jurisdiction the payment would be required to be included in the income of a settlor or beneficiary with respect to such fiduciary, a partner of such partnership or the beneficial owner and such settlor, beneficiary, partner or beneficial owner would not have been entitled to receive Additional Amounts had it been the Holder of the Note or Coupon.

(c) If the Issuer or a successor is organised or becomes at any time tax resident in any jurisdiction other than the Cayman Islands and the PRC, references in these Conditions to the Cayman Islands and the PRC shall be construed as references to the Cayman Islands and the PRC and/or such other jurisdiction.

14. Events of Default

Each of the following events constitute an event of default (each, an "**Event of Default**") with respect to any Note:

(a) ***Non-Payment of principal***: the Issuer fails to pay the principal or premium (if any) of any of the Notes when due; or

(b) ***Non-Payment of interest***: the Issuer fails to pay the interest of any of the Notes when due and such failure continues for a period of 30 days; or

(c) ***Breach of Consolidation, Merger and Sale of Assets Covenant***: the Issuer defaults in the performance of, or breaches, its obligations under Condition 5(b) (*Consolidation, Merger and Sale of Assets*); or

(d) ***Breach of other obligations***: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes (other than a default specified in clauses (a), (b) or (c) above), the Agency Agreement or Trust Deed and such default remains unremedied for 90 days after written notice by the Trustee has been delivered to the Issuer; or

(e) ***Unsatisfied judgment***: one or more judgment(s) or order(s) for the payment of any amount is rendered against the Issuer and continue(s) unsatisfied and unstayed for a period of 90 days after the date(s) thereof or, if later, the date therein specified for payment, and such judgment(s) or order(s) exceed the greater of (y) US$100 million (or its equivalent in any other currency or currencies) and (z) 2.5 per cent. of the Issuer's Total Equity; or

(f) ***Insolvency, etc.***: the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer or any of its Material Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or (ii) a decree or order adjudging the Issuer or any of its Material Controlled Entities bankrupt or insolvent, or approving as final and non-appealable a petition seeking reorganisation, arrangement, adjustment, or composition of or in respect of the Issuer or any of its Material Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of its Material Controlled Entities or of any substantial part of their respective property, or ordering the winding up or liquidation of their respective affairs (or any similar relief granted under any foreign laws), and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive calendar days; or

(g) ***Voluntary Arrangements***: the commencement by the Issuer or any of its Material Controlled Entities of a voluntary case or proceeding under any applicable state or foreign bankruptcy, insolvency or other similar law or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Issuer or any of its Material Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganisation or relief with respect to the Issuer or any of its Material Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of its Material Controlled Entities or of any substantial part of their respective property pursuant to any such law, or the making by the Issuer or any of its Material Controlled Entities of a general assignment for the benefit of creditors in respect of any indebtedness as a result of an inability to pay such indebtedness as they become due, or the admission by the Issuer or any of its Material Controlled Entities in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer or any of its Material Controlled Entities that resolves to commence any such action; or

(h) ***Analogous event***: any event occurs which under the laws of the Cayman Islands or the PRC has an analogous effect to any of the events referred to in paragraphs (e) (*Unsatisfied judgment*) to (g) (*Voluntary Arrangements*) above; or

(i) ***Unlawfulness***: the Notes, the Trust Deed or the Agency Agreement is or becomes or is claimed to be unenforceable, invalid, ceases to be in full force and effect by the Issuer, or is deemed to contravene, breach or violate the laws of any relevant jurisdiction.

If an Event of Default (other than an Event of Default described in clauses (f) and (g) above) shall occur and be continuing, either the Trustee at its discretion may or, if so requested in writing by Noteholders holding not less than 25 per cent. in aggregate principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution, shall give notice to the Issuer that the Notes are immediately due and payable at their Early Termination Amount (together with accrued interest and any Additional Amount payable in respect thereof) without further action or formality.

If an Event of Default in clauses (f) or (g) above shall occur, the Notes shall automatically, and without any declaration or other action by the Trustee or any Noteholder, become immediately due and payable at their Early Termination Amount (together with accrued interest and any Additional Amount payable in respect thereof).

15. Defeasance

(a) The Trust Deed will provide that the Issuer will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Trust Deed will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the relevant Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

(i) the Issuer (A) has deposited with the Trustee (or its agent), in trust, cash in Specified Currency in an amount sufficient to pay the principal of, premium, if any, accrued interest and any other amount on the Notes on the relevant Maturity Date for such payments in accordance with the terms of the Trust Deed and the Notes and (B) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognised firm of independent accountants to the effect that the amount deposited by the Issuer is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the relevant Maturity Date for such payment in accordance with the terms of the Trust Deed and the Conditions;

(ii) In the case of Notes that were issued as Restricted Notes (as defined in the Trust Deed), the Issuer has delivered to the Trustee either (A) an Opinion of Counsel with respect to U.S. federal income tax matters to the effect that, based on a change in applicable U.S. federal income tax law occurring after the date hereof, beneficial owners will not recognise income, gain or loss for U.S. federal income tax purposes as a result of the Issuer's exercise of its option under this Condition 15 and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit, defeasance and discharge had not occurred or (B) a ruling directed to the Issuer or the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel;

(iii) the Issuer has delivered to the Trustee (A) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 183 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law and (B) an Opinion of Counsel acceptable to the Trustee to the effect that after the passage of 183 days following the deposit, the trust fund will not be subject to the effect of Articles 31 and 32 of the PRC Enterprise Bankruptcy Law; and

(iv) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Issuer or any of its Controlled Entities is a party or by which the Issuer or any of its Controlled Entities is bound.

(b) The Trust Deed will further provide that:

(i) the provisions of the Trust Deed applicable to the Notes will no longer be in effect with respect to:

(A) Condition 5(a) (*Negative Pledge*); and

(B) Condition 10(f) (*Redemption for Triggering Event*); and

(ii) any of the Events of Default provided in Conditions 14(d) (*Breach of other obligation*), with respect to Condition 5(a) or Condition 10(f) and Events of Default provided in Condition 14(e) (*Unsatisfied judgment*) shall be deemed not to be Events of Default,

upon, among other things, (X) the deposit with the Trustee, in trust, of cash in Specified Currency in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the relevant Maturity Date of such payments in accordance with the terms of the Trust Deed and the Notes, (Y) the satisfaction of the provisions described in Condition 15(a)(iii) and (Z) in the case of Notes that were issued as Restricted Notes, the delivery by the Issuer to the Trustee of an Opinion of Counsel with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognise income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

(c) In the event the Issuer exercises its option to omit compliance with certain covenants and provisions of the Trust Deed with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default, the Issuer will remain liable for any amounts due on the Notes at the time of the acceleration resulting from such Event of Default.

16. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

17. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the relevant Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent

authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

18. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or pre-funded and/or provided with security to its satisfaction, as well as relieved from responsibility in certain circumstances and to be paid its fees, costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar or Calculation Agent and additional or successor paying agents; provided, however, that:

(i) the Issuer shall at all times maintain a principal paying agent and a registrar; and

(ii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and

(iii) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU Service; and

(iv) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

19. Meetings of Noteholders; Modification and Waiver

(a) ***Meetings of Noteholders***: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or any modifications to the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than five per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding

or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing more than 50 per cent. or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders of not less than 90 per cent. of the aggregate principal amount outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification and waiver***: The Trustee may, but shall not be obliged to, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, but shall not be obliged to, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, waiver of modification shall be binding on the Noteholders and unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) ***Directions from Noteholders***: Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

(d) ***Certificates and Reports***: The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

20. Enforcement

The Trustee may at any time, at its absolute discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or pre-funded and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

21. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, and in accordance with the Trust Deed, create and issue additional notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes; *provided* that in order for additional Registered Notes have the same CUSIP, ISIN or other identifying code as outstanding Registered Notes of the relevant Series, the additional Registered Notes must be fungible with the outstanding Registered Notes of such Series for U.S. federal income tax purposes; and provided further that, in the case of Bearer Notes that are issued under the "TEFRA D" rules and are initially represented by interests in a Temporary Global Note exchangeable for interests in a Permanent Global Note or definitive Bearer Notes, such additional Notes may have the same CUSIP, ISIN or other identifying code as Notes of the existing series only following certification of non-U.S. beneficial ownership and exchange of interests in the Temporary Global Note for interests in the Permanent Global Note or definitive Bearer Notes in accordance with the TEFRA D rules.

22. Notices

(a) ***Bearer Notes***: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) ***Registered Notes***: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of (i) Euroclear or Clearstream, DTC or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Instrument Position Report issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice.

23. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

24. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

25. Governing Law and Jurisdiction

(a) ***Governing law***: The Notes, the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

(b) ***English courts***: The courts of England have jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including a dispute relating to the existence, validity or termination of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of its nullity.

(c) ***Appropriate forum***: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) ***Rights of the Noteholders to take proceedings outside England***: Condition 25(b) (English courts) is for the benefit of the Noteholders only. As a result, nothing in this Condition 25 prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) ***Process agent***: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder

addressed and delivered to the Issuer or to the Specified Office of the Principal Paying Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) ***Consent to enforcement etc.***: The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(g) ***Waiver of immunity***: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

THE PRC

The PBOC, the central bank of the PRC, sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the US dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the interbank foreign exchange market after the closing of the market on each working day and makes it the central parity for the trading against the Renminbi on the following working day. In March 2014, the PBOC increased the floating band for the trading prices in the interbank foreign exchange market of the Renminbi against the US dollar from 1.0% to 2.0% around the central parity rate. This allows the Renminbi to fluctuate against the US dollar by up to 2.0% above or below the central parity rate published by the PBOC.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this Offering Circular or will use in the preparation of our periodic reports or any other information to be provided to you:

	Noon Buying Rate			
	Period end	Average[(1)]	High	Low
	(RMB per US$1.00)			
Period				
2015	6.4778	6.2827	6.4896	6.1870
2016	6.9430	6.6400	6.9580	6.4480
2017	6.5063	6.7569	6.9575	6.4773
2018	6.8755	6.6090	6.9737	6.2649
2019	6.9618	6.9081	7.1786	6.6822
2020	6.5250	6.9042	7.1681	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344
March	6.5518	6.5109	6.5716	6.4648
April (through 2 April)	6.5646	6.5646	6.5646	6.5645

Source: U.S. Federal Reserve Statistical Release

(1) Determined by averaging the daily rates during that period.

On 2 April 2021, the U.S. dollar/Renminbi exchange rate was US$1.00 to RMB6.5646.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Series of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**EU Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

[**MIFID II product governance** — [*appropriate target market legend to be included*]]

[**UK MiFIR Product Governance** — [*appropriate target market legend to be included*]]

Pricing Supplement dated [●]

Tencent Holdings Limited

Issue of [Aggregate Nominal Amount of Series] [Title of Notes]
under the US$30,000,000,000 Global Medium Term Note Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the SEHK ("**Professional Investors"**) only.

SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and Notes on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice to Hong Kong investors: the Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on SEHK on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [●] (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [and the supplemental Offering Circular dated [date]].

[**Notification under Section 309B(1)(c) of the SFA:** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time, and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [Excluded Investment Products]/[Specified Investment Products] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).][1]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.]

1.	Issuer:	Tencent Holdings Limited
2.	[(i) Series Number:]	[●]
	[(ii) Tranche Number:	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	
3.	Specified Currency or Currencies:	[●]
4.	Aggregate Nominal Amount:	[●]
	[(i)] [Series]:	[●]
	[(ii) Tranche:	[●]

[1] Insert this paragraph for any Notes to be offered to Singapore investors upon confirmation by the Issuer pursuant to Section 309B of the SFA

5.	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]
	(ii)	Net Proceeds:	[●] [(Required only for listed issues)]
6.	(i)	Specified Denominations[2,3]:	[●]
	(ii)	Calculation Amount:	[●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.		Maturity Date:	[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][4] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.*]
9.		Interest Basis:	[[●] per cent. Fixed Rate] [[*Specify* reference rate] +/-[●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] (further particulars specified below)

2 Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

3 If the specified denomination is expressed to be EUR50,000 (or EUR100,000, to the extent that Directive 2010/73/EU has been implemented in the relevant Member State) or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR50,000 (or EUR100,000, to the extent that Directive 2010/73/EU has been implemented in the relevant Member State) and integral multiples of [EUR1,000] in excess thereof up to and including [EUR99,000]/[EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR99,000]/[EUR199,000]. In relation to any issue of Notes which are a "Global Note exchangeable for Definitive Notes" in circumstances other than "in the limited circumstances specified in the Global Notes", such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

4 Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*Specify*)]
11.	Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Listing:	[Hong Kong/Other (*specify*)/None] (For Notes to be listed on the [SEHK], insert the expected effective listing date of the Notes)
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semiannually/quarterly/monthly/other (*specify*)] in arrears]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[5]
	(iv) Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]

[5] For Renminbi or Hong Kong dollar-denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi-denominated Fixed Rate Notes to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar-denominated Fixed Rate Notes, being rounded upwards.

	(v) Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
	(vi) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
16.	Floating Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Interest Period(s):	[●]
	(ii) Specified Period:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
	(iii) Specified Interest Payment Dates:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
	(iv) First Interest Payment Date:	[●]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vi) Additional Business Centre(s):	[Not Applicable/give details]
	(vii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
	(viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Principal Paying Agent]):	[[Name] shall be the Calculation Agent (no need to specify if the Principal Paying Agent is to perform this function)]

(ix) Screen Rate Determination:

Reference Rate:	[*For example, LIBOR or EURIBOR*]
Interest Determination Date(s):	[●]
Relevant Screen Page:	[*For example, Reuters LIBOR 01/EURIB0R 01*]
Relevant Time:	[*For example, 11.00 a.m. London time/Brussels time*]
Linear Interpolation:	[*Applicable/Not Applicable*]
Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*]

(x) ISDA Determination:

Floating Rate Option:	[●]
Designated Maturity:	[●]
Reset Date:	[●]
Linear Interpolation:	[*Applicable/Not Applicable*]

(xi) Margin(s): [+/-][●] per cent. per annum

(xii) Minimum Rate of Interest: [●] per cent. per annum

(xiii) Maximum Rate of Interest: [●] per cent. per annum

(xiv) Day Count Fraction: [●]

(xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:

17. Zero Coupon Note Provisions: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Accrual Yield: [●] per cent. per annum [●]

(ii) Reference Price: [●]

(iii) Any other formula/basis of determining amount payable: [*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition [11(f)]*]

18.	Index-Linked Interest Note/other[6] variable-linked interest Note Provisions:	[Applicable/Not Applicable]
	(i) Index/Formula/other variable:	[give or annex details] [●]
	(ii) Calculation Agent responsible for calculating the interest due:	[●]
	(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv) Interest Determination Date(s):	[●]
	(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi) Interest or calculation period(s):	[●]
	(vii) Specified Period:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
	(viii) Specified Interest Payment Dates:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
	(ix) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(x) Additional Business Centre(s):	[●]
	(xi) Minimum Rate/Amount of Interest:	[●] per cent. per annum
	(xii) Maximum Rate/Amount of Interest:	[●] per cent. per annum
	(xiii) Day Count Fraction:	[●]

[6] U.S. tax advice should be sought where indices are linked to U.S. securities, even for Regulation S only offerings.

19.	Dual Currency Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	Call Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
21.	Put Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]

22.	Final Redemption Amount of each Note:	[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	
	(i) Index/Formula/variable:	[*give or annex details*]
	(ii) Calculation Agent responsible for calculating the Final Redemption Amount:	[●]
	(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[●]
	(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi) [Payment Date]:	[●]
	(vii) Minimum Final Redemption Amount:	[●] per Calculation Amount
	(viii) Maximum Final Redemption Amount:	[●] per Calculation Amount
23.	Early Redemption Amount:	
	(i) Early Redemption Amount (Tax) per Calculation Amount payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[*Principal Amount/specify the Early Redemption Amount (Tax) if different*]
	(ii) Early Redemption Amount (Triggering Event) per Calculation Amount payable on redemption for triggering event and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[*101 per cent./specify the Early Redemption Amount (Triggering Event) if different*]
	(iii) The Redemption Amount per Calculation Amount payable on redemption of Zero Coupon Notes prior to the Maturity Date and/or the method of calculating the same (if different from that set out in the Conditions):	[*Specify*]

24. Early Termination Amount:

Early Termination Amount (s) per Calculation Amount payable on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[*Principal Amount/specify the Early Termination Amount if different*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	Form of Notes:	**Bearer Notes**[7,8]: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][9] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** [Unrestricted Global Certificate exchangeable for unrestricted Individual Note Certificates in the limited circumstances described in the Unrestricted Global Certificate] [and] [Restricted Global Certificate exchangeable for Restricted Individual Note Certificates in the limited circumstances described in the Restricted Global Certificate]
26.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[*Not Applicable/give details Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 16(vi) and 18(x) relate*]
27.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, *give details*]

7 Bearer Notes must be issued only pursuant to Regulation S outside the United States to non-U.S. persons.

8 Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note exchangeable upon U.S. tax certification for a Permanent Global Note or Definitive Note.

9 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "[EUR50,000]/[EUR100,000] and integral multiples of [EUR1,000] in excess thereof up to and including [EUR99,000]/[EUR199,000]", the Temporary Global Note shall not be exchangeable on [●] days' notice.

28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*]
29.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
30.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
31.	Consolidation provisions:	The provisions in Condition 21 (***Further Issues***)] [annexed to this Pricing Supplement] apply]
32.	Any applicable currency disruption/fallback provisions:	[Not Applicable/*give details*]
33.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

34.	(i) If syndicated, names of Managers:	[Not Applicable/*give name*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give names*]
35.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
36.	Total commission and concession:	[●] per cent. of the Aggregate Nominal Amount
37.	U.S. Selling Restrictions:	[Reg. S Category [2]];[10] (*In the case of Bearer Notes*) — [C RULES/D RULES/TEFRA not applicable][11] (*In the case of Registered Notes*) — [Not] 144A Eligible
38.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]
39.	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable]
40.	Additional selling restrictions:	[Not Applicable/*give details*]

[10] Bearer Notes must be issued under Reg. S.

[11] TEFRA not applicable may only be used for Registered Notes, or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU Service must be issued in compliance with the C Rules, unless at the time of issuance the CMU Service and the CMU Lodging Agent have procedures in place so as to enable compliance with the certification requirements under the D Rules.

OPERATIONAL INFORMATION

41.	ISIN Code:	[●]
42.	Common Code:	[●]
43.	CUSIP:	[●]
44.	CMU Instrument Number:	[●]
45.	Any clearing system(s) other than Euroclear/Clearstream, DTC and the CMU Service and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
46.	Delivery:	Delivery [against/free of] payment [●]
47.	Additional Paying Agent(s) (if any):	[●]

GENERAL

48.	The aggregate principal amount of Notes issued has been translated into United States dollars at the rate of [●], producing a sum of (for Notes not denominated in United States dollars):	[Not Applicable/US$[●]]
49.	[Ratings:	The Notes to be issued have been rated: [[●]:[●]]; [[●]:[●]]; [and] (each a "**Rating Agency**"). If any Rating Agency shall not make a rating of the Notes publicly available, the Issuer shall select and substitute them with [●] or [●] and its successors.]

[USE OF PROCEEDS

Give details if different from the "**Use of Proceeds**" section in the Offering Circular.]

[STABILISING

In connection with this issue, [insert name of Stabilising Manager] (the "**Stabilising Manager**") (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the SEHK of the Notes described herein pursuant to the US$30,000,000,000 Global Medium Term Note Programme of the Issuer.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Tencent Holdings Limited

By: _____
Duly authorised

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Series of Notes represented by a Global Note, references in the Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system and/or a sub-custodian for the CMU Service, will be that depositary, common depositary or, as the case may be, sub-custodian.

In relation to any Series of Notes represented by one or more Global Note Certificates, references in the Conditions of the Notes to "Noteholder" are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register which (a) in the case of a Restricted Global Note Certificate held by or on behalf of DTC will be Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC and (b) in the case of any Unrestricted Global Note Certificate which is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of DTC, Euroclear, Clearstream and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "**Accountholder**") must look solely to DTC, Euroclear, Clearstream and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

If a Global Note or a Global Registered Note is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Registered Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU Service as entitled to receive payments in respect of Notes represented by such Global Note or Global Registered Note and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU Service in respect of each amount so paid. Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Registered Note must look solely to the CMU Lodging Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Registered Note.

Transfers of Interests in Global Notes and Global Note Certificates

Transfers of interests in Global Notes and Global Note Certificates within DTC, Euroclear and Clearstream or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Registrar, the Dealer or the Agents will have any responsibility or liability for any aspect of the records of any DTC, Euroclear and Clearstream or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Note Certificate or for maintaining, supervising or reviewing any of the records of DTC, Euroclear and Clearstream or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", transfers between DTC participants, on the one hand, and Euroclear or Clearstream accountholders, on the other will be effected by the relevant clearing systems in accordance with their respective rules and through action taken by the DTC Custodian, the Registrar and the Principal Paying Agent.

On or after the issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Transfers between DTC participants, on the one hand, and Euroclear or Clearstream accountholders, on the other, will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, on the other, transfers of interests in the relevant Global Note Certificates will be effected through the Principal Paying Agent, the DTC Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Note Certificate resulting in such transfer and (ii) two business days after receipt by the Principal Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately. The customary arrangements for delivery versus payment between Euroclear and Clearstream account holders or between DTC participants are not affected.

For a further description of restrictions on the transfer of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Upon the issue of a Restricted Global Note Certificate to be held by or on behalf of DTC, DTC or the DTC Custodian will credit the respective nominal amounts of the individual beneficial interests represented by such Global Note Certificate to the account of DTC participants. Ownership of beneficial interests in such Global Note Certificate will be held through participants of DTC, including the respective depositaries of Euroclear and Clearstream. Ownership of beneficial interests in such Global Note Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee. DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes represented by a Global Note Certificate held by or on behalf of DTC (including, without limitation, the presentation of such Global Note Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in such Global Note Certificate are credited, and only in respect of such portion of the aggregate nominal amount of such Global Note Certificate as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the relevant Global Note Certificate for Individual Note Certificates (which will bear the relevant legends set out in "*Transfer Restrictions*").

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and account holders of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Registrar, the Dealer or the Agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Note Certificate is lodged with DTC, Euroclear, Clearstream or any relevant clearing system, Individual Note Certificates for the relevant Series of Notes will not be eligible for clearing and settlement through such clearing systems.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note or a Global Note Certificate, "Payment Business Day" shall be: (x) if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or (y) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU Service) will be made to, or to the order of, the person whose name is entered on the relevant Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the "**record date**"), where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January. In respect of a Global Note or Global Certificate held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service as at the business day before the date for payment) and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

Exercise of put options: In order to exercise the options contained in Condition 10(e) (*Redemption at the option of the Noteholders*) and 10(f) (*Redemption for Triggering Event*) the bearer of a Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of the CMU Service, DTC, Euroclear and/or Clearstream (to be reflected in the records of the CMU Service, DTC, Euroclear and/or Clearstream as either a pool factor or a reduction in principal amount, at their discretion).

Notices: So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (a) Euroclear and/or Clearstream and/or DTC or any other clearing system (except as provided in (b) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (b) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note or Global Certificate.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth our debt and capitalisation as at 31 December 2020.

This table should be read in conjunction with "*Use of Proceeds*", "*Selected Consolidated Financial and Other Data*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Company's audited consolidated financial statements as at and for the year ended 31 December 2020 and related notes thereto included elsewhere in this Offering Circular.

	As at 31 December 2020	
	(RMB in millions)	(US$ in millions)
Current liabilities:		
Borrowings	14,242	2,183
Notes payable	–	–
	14,242	**2,183**
Non-current liabilities:		
Borrowings	112,145	17,187
Notes payable	122,057	18,706
	234,202	**35,893**
Total debts	**248,444**	**38,076**
Equity attributable to equity holders of the Company		
Share capital	–	–
Share premium	48,793	7,478
Shares held for share award schemes	(4,412)	(676)
Other reserves	121,139	18,565
Retained earnings	538,464	82,523
	703,984	**107,890**
Non-controlling interests	74,059	11,350
Total equity	**778,043**	**119,240**
Total capitalisation[(1)]	**1,026,487**	**157,316**

Note:

(1) Total capitalisation represents the sum of total debts under current and non-current liabilities and total equity.

As at the date of this Offering Circular, there has been no material adverse change in the consolidated capitalisation and indebtedness of the Group since 31 December 2020.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 have been derived from our audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020 included elsewhere in this Offering Circular.

In preparing the audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, the Company has adopted the new accounting standard as and when it came into effect and has 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 2019 and 2020 may not be comparable with the financial statements for the previous years, including the audited consolidated financial statements as at and for the year ended 31 December 2018. For the impact on adoption of the new accounting standard, please refer to Note 2.2 to the Company's audited consolidated financial statements as at and for the year ended 31 December 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 2019 and 2020 may not be comparable with the financial statements for previous years*".

The summary financial data below should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the audited consolidated financial statements included elsewhere in this Offering Circular.

SELECTED CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

	Year ended 31 December			
	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Revenues:				
VAS	176,646	199,991	264,212	40,492
Online Advertising	58,079	68,377	82,271	12,609
FinTech and Business Services[(1)]	73,138	101,355	128,086	19,630
Others[(1)]	4,831	7,566	7,495	1,149
Total revenues	**312,694**	**377,289**	**482,064**	**73,880**
Cost of revenues	(170,574)	(209,756)	(260,532)	(39,928)
Gross profit	**142,120**	**167,533**	**221,532**	**33,952**
Interest income	4,569	6,314	6,957	1,066
Other gains, net	16,714	19,689	57,131	8,756
Selling and marketing expenses	(24,233)	(21,396)	(33,758)	(5,174)
General and administrative expenses	(41,522)	(53,446)	(67,625)	(10,364)
Operating profit	**97,648**	**118,694**	**184,237**	**28,236**
Finance costs, net	(4,669)	(7,613)	(7,887)	(1,209)
Share of profit/(loss) of associates and joint ventures, net	1,487	(1,681)	3,672	562
Profit before income tax	**94,466**	**109,400**	**180,022**	**27,589**
Income tax expense	(14,482)	(13,512)	(19,897)	(3,049)
Profit for the year	**79,984**	**95,888**	**160,125**	**24,540**

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.

SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018, 2019 AND 2020

	As at 31 December			
	2018	2019	2020	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(US$ in millions)
Cash and cash equivalents	97,814	132,991	152,798	23,417
Term deposits	62,918	46,911	68,487	10,496
Total current assets	**217,080**	**253,968**	**317,647**	**48,681**
Term deposits	–	19,000	31,681	4,855
Total non-current assets	**506,441**	**700,018**	**1,015,778**	**155,675**
Total assets.	**723,521**	**953,986**	**1,333,425**	**204,356**
Borrowings	26,834	22,695	14,242	2,183
Notes payable	13,720	10,534	–	–
Total current liabilities	**202,435**	**240,156**	**269,079**	**41,238**
Borrowings	87,437	104,257	112,145	17,187
Notes payable	51,298	83,327	122,057	18,706
Total non-current liabilities	**164,879**	**225,006**	**286,303**	**43,878**
Total liabilities	**367,314**	**465,162**	**555,382**	**85,116**
Total equity	**356,207**	**488,824**	**778,043**	**119,240**
Total liabilities and equity	**723,521**	**953,986**	**1,333,425**	**204,356**

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

	Year ended 31 December			
	2018	2019	2020	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(US$ in millions)
Net cash flows generated from operating activities[3]	110,936	148,590	194,119	29,750
Net cash flows used in investing activities[1]	(151,913)	(116,170)	(181,955)	(27,886)
Net cash flows generated from financing activities[2][3]	30,887	1,672	13,647	2,091
Net (decrease)/increase in cash and cash equivalents	(10,090)	34,092	25,811	3,955
Cash and cash equivalents at beginning of the year	105,697	97,814	132,991	20,382
Exchange gains/(losses) on cash and cash equivalents	2,207	1,085	(6,004)	(920)
Cash and cash equivalents at end of the year	97,814	132,991	152,798	23,417

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 RMB23,092 million, RMB28,331 million and RMB40,961 million (US$6,278 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

(2) Includes, among others, dividends paid to our shareholders and non-controlling interest owners, which amounted to RMB7,396 million, RMB9,453 million and RMB11,418 million (US$1,750 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

(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.

OTHER FINANCIAL DATA

	Year ended 31 December			
	2018	2019	2020	
	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(US$ in millions, except for %)
EBITDA[(1)]	110,404	137,268	170,680	26,158
Adjusted EBITDA[(1)]	118,273	147,395	183,314	28,094
Adjusted EBITDA margin[(2)]	38%	39%	38%	38%
Net (debt)/cash[(3)]	(12,170)	(15,552)	11,063	1,695

	Year ended 31 December			
	2018	2019	2020	
	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	(US$ in millions, except for ratios)
Adjusted EBITDA[(1)]	118,273	147,395	183,314	28,094
Interest and related expenses	4,898	7,690	7,449	1,142
Ratios:				
Adjusted EBITDA[(1)] to interest and related expenses	24x	19x	25x	25x
Total debts[(4)] to adjusted EBITDA[(1)]	1.52x	1.50x	1.36x	1.36x

Note:

(1) EBITDA for any year 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. Other gains/losses, net consist primarily 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, goodwill and other intangible assets arising from acquisitions, subsidies and tax rebates, dividends income, donations and provision/reversal on accounts receivable and other receivables. Adjusted EBITDA is calculated as EBITDA plus equity-settled share-based compensation expenses. EBITDA and Adjusted EBITDA are not standard measures under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to cash flows, net income or any other measure of performance or as indicators of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA and Adjusted EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA and Adjusted EBITDA because we believe they are a useful supplement to cash flows data as a measure of our performance and our ability to generate cash flows from operations to cover debt service and taxes. EBITDA and Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA or Adjusted EBITDA to the EBITDA or Adjusted EBITDA presented by other companies because not all companies use the same definition.

(2) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.

(3) Net (debt)/cash represents year-end balance and is calculated as cash and cash equivalents, plus term deposits and others, minus borrowings and notes payable.

(4) Total debts consist of borrowings and notes payable.

The following table reconciles our operating profit under IFRS to our EBITDA and Adjusted EBITDA for the years indicated.

	Year ended 31 December			
	2018	2019	2020	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Operating profit	97,648	118,694	184,237	28,236
Adjustments:				
Interest income	(4,569)	(6,314)	(6,957)	(1,066)
Other gains, net	(16,714)	(19,689)	(57,131)	(8,756)
Depreciation of property, plant and equipment and investment properties	8,423	12,574	17,685	2,710
Depreciation of right-of-use assets	–	3,049	3,773	578
Amortisation of intangible assets	25,616	28,954	29,073	4,456
EBITDA	**110,404**	**137,268**	**170,680**	**26,158**
Equity-settled share-based compensation	7,869	10,127	12,634	1,936
Adjusted EBITDA	**118,273**	**147,395**	**183,314**	**28,094**

OPERATING DATA

The following data sets forth certain operating statistics relating to our Internet platforms and VAS as at the dates presented:

	As at 31 December		
	2018	2019	2020
	(in millions)	(in millions)	(in millions)
Combined MAU of *Weixin* and *WeChat*(1)	1,097.6	1,164.8	1,225.0
Smart device MAU of *QQ*(2)	699.8	647.0	594.9
Fee-based VAS registered subscriptions	160.3	180.1	219.5

Note:

(1) Combined MAU of *Weixin* and *WeChat* figures denote the total number of user accounts that logged in and sent a message, or conducted an activity in *Moments*, games, etc. during the last calendar month prior to the relevant date.

(2) Smart device MAU of *QQ* figures denote the total number of *QQ* MAU that logged in via applications on smart devices (iOS, Android) and sent a message, or conducted an activity in *Moments*, games, etc. during the last calendar month prior to the relevant date.

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 2018, 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 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 2019 and 2020, we have adopted the new accounting standard as and when it 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 2019 and 2020 may not be comparable with the financial statements for the previous years, including the audited consolidated financial statements as at and for the year ended 31 December 2018. For the impact on adoption of the new accounting standard, please refer to Note 2.2 to our audited consolidated financial statements as at and for the year ended 31 December 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 2019 and 2020 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 Internet services company operating a broad range of Internet services including communication and social services, 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. Our expansive product offerings, advanced technologies and infrastructure services form a hub for fulfilling people's everyday needs.

We operate the largest communication and social community in China in terms of user base through *Weixin and QQ*. Our highly-engaged communication and social services are the foundation of our online community and provide a gateway to our VAS, connecting our users with products, services and enterprises. We had the largest number of DAU and MAU among social communities on both mobile and PC in February 2021, according to iResearch. *Weixin* and *WeChat* had a combined MAU of 1,225.0 million and QQ had a smart device MAU of 594.9 million as at 31 December 2020.

As an industry leader and global pioneer of innovative technology solutions, our products and services connect users, content providers, enterprises and developers. Our social products link our users to a vast array of best-in-class digital content and multimedia services across the globe. *Weixin* shapes consumers' digital lives in China. Each day, more than 120 million users post in *Weixin Moments*, 360 million users read *Weixin Official Accounts* articles and 400 million users access *Weixin Mini Programs*. Services such as *Weixin Pay* and *Weixin Mini Programs* are becoming increasingly interconnected and serve as central hubs of mobile connectivity. At the same time, SMEs and brands increasingly connect with users via *Weixin*. For example, *Weixin Pay* facilitates easy and secure online and offline transactions, organically connecting users with businesses. It provides convenient access to other high frequency services within its interface as well, which are grouped under the four verticals of Financial Services, Daily Services, Travel & Transportation, and Shopping & Entertainment. *Weixin Mini Programs* connect online and offline services with users on *Weixin*. They help companies digitalise their businesses by tapping into the growing smart-business and smart-living needs of our user base, covering a massive spectrum of traditionally offline consumption scenarios such as retail, healthcare, and mobility. In 2020, *Weixin Mini Programs* deepened its penetration into even more use cases, with annual transaction volume more than doubling year-on-year. Within *QQ*, we focused on enhancing interactive experiences in vertical communities. *QQ* allows us to increase stickiness among young users by enriching communal experiences such as playing

AI-powered social games and watching *Tencent Video* together in video calls. We also provide interactive learning experiences such as quiz challenges through partnering with educational institutions. We launched *Video Accounts* as a separate ID-based, short form content creation product that allows individuals, media and businesses to share content and engage with readers and customers, and strengthen brand awareness and content management. *Video Accounts* facilitate public sharing of informative and entertainment content in video and live streaming formats, and link public and private domains to help content creators and brands acquire and manage customers more efficiently. Users are increasingly uploading personal videos, and sharing them with friends, in *Weixin Moments* and chats. *Video Accounts* also enable brands and enterprises to broaden their audience reach and drive transactions, especially via links to *Weixin Mini Programs*.

Leveraging our massive user base, we have developed leading digital content services offering a broad range of high-quality content. We have curated popular IP and extended our IP value across various forms, such as literature, anime, games and long form video services, to create appealing content and attract paying users. We are the leader in the long form video industry with 123 million video subscriptions as at 31 December 2020, benefitting from recent releases of popular anime IPs and drama series. We are also building vibrant short form video communities to encourage interaction between viewers and creators, and to deliver knowledge-based video content. We offer premium music content through *TME*, with over 622 million average mobile MAU in online music and 223 million average MAU in social entertainment in the last quarter of 2020. We operate a leading online content library and publisher in China, *China Literature,* as measured by the scale and quality of writers, readers and literary content offerings. At *China Literature*, we have sought to enrich free and paid content, community features and an IP-centric ecosystem. By driving synergies across our digital content services, we have significantly enhanced the value of our IP portfolio.

We are the largest online game service provider globally as measured by revenues in 2020. We have developed and published highly popular games in a variety of genres. During 2020, we experienced rapid growth in our international online game business due to our enhanced development and publishing capabilities. Our global games segment revenue grew 36% year-on-year in 2020. We strengthened our global leadership in mobile and PC games via self-developed franchises and IP collaboration with partners and investee companies. Our leadership spans multiple genres, including battle arena, action and role-playing games, as well as multiple products, across mobile and PC. *Honour of Kings* was the top-grossing mobile game worldwide in 2020 for the second consecutive year and continued as the most popular mobile game in China by MAU. As at 31 December 2020, we, together with our majority owned subsidiaries, had developed 4 of the top 10 smart phone games by MAU globally, according to QuestMobile and App Annie.

Our substantial and engaged user base, combined with our unique data insights and advanced digital advertising technology, present an attractive proposition to advertisers. Our online advertising services primarily comprise social and others advertising and media advertising. Social and other advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Mini Programs*, *Weixin Official Accounts, QQ,* other tools such as *QQ Browser*, as well as our mobile advertising network. Media advertising relates to advertising on our video, news, music and other online media properties. The significant traffic across our various properties offers ample advertising opportunities. We have integrated our advertising platforms, strengthened our own properties as well as mobile advertising network and providing unified access to full range of our own and third-party advertising inventories, which makes us the preferred choice for advertisers. In *Weixin Moments*, we enabled performance-oriented advertisers to link their advertisements to *Weixin Mini Programs*, boosting their sales conversion. Our mobile advertising network offers customised in-app advertising solutions, ramping up in-game advertising revenue from third-party game companies and Internet service providers.

For our FinTech business, since its launch, we have been working closely with regulators and collaborating with industry partners to deliver compliant and inclusive FinTech products, while prioritizing risk management over scale. Our payment service has expanded from social to commercial activities, and from online to offline transactions. We create value for society by providing social payment services, such as red packets and bill sharing. Our commercial payment services facilitate fast and seamless experiences for both eCommerce transactions and offline consumption scenarios. We innovate to offer efficient payments solutions including QR code payment for merchants and users, as well as scan-to-buy for in-store purchase and check-out services which are widely adopted by supermarket chain stores. Our robust payment system provides high levels of payment security, service reliability and transaction speed. Our payment

transaction volume has increased healthily year-on-year, driven by more daily active consumers and higher payment frequency in multiple verticals, such as retail, public services and groceries. Our commercial take rates have remained stable. We also offer wealth management services through *LiCaiTong*, our small-sized consumer loan product *WeiLiDai* through our affiliate WeBank, a licensed-bank, and insurance services through *WeSure*.

In our cloud and 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. Our cloud services are the foundation for our smart industry solutions, helping to digitally transform and empower businesses that have conventionally operated offline. *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. We invested in IaaS technology, including our customised "Star Lake" cloud server solutions and self-developed data centre technology "T-block", to enhance our cloud services' performance and cost efficiency. We have been working with partners to upgrade our PaaS solutions by increasing the adoption of security and real-time communication PaaS. In the area of SaaS products, *Tencent Meeting* has become the largest standalone app for cloud conferencing in China with total users exceeding 100 million as at 31 December 2020. *WeCom*, the enterprise version of *Weixin*, has become an integral communications tool for remote workplaces, having served over 5.5 million enterprises, better connecting them internally and to over 400 million *Weixin* users as at 31 December 2020.

In addition to growing our core businesses organically, we further broaden the types and the number of services offered to our users by enabling third-party partners to offer services and products within our products. Through strategic partnerships with category leaders, we continue to deepen engagement with our users and build our ecosystem. We, including our affiliates such as *JD.com*, *Meituan*, *Pinduoduo*, provide services across a variety of Internet categories.

As we focus our management attention and company resources on innovation within our own core products, we also make strategic investments in high-quality management teams and best-in-class companies. 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 to drive innovation and achieve a better understanding of frontier technologies, 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 with infrastructure, technology and capital support to bolster their growth. We support their independent growth and innovation, and strive to pursue synergies that add value for our users.

We continue to extend our "Connection" strategy from connecting people to people, to connecting people to content and services, and more recently to connecting industries, consumers and business partners with one another. In Consumer Internet, we identify investments which capture emerging opportunities arising from technological advancement and changes in user behavior. User value and product experience are top priorities for us. Our key areas of investment include content, games, FinTech, cloud, smart retail and education. In Industrial Internet, we seek to build close partnerships with value chain players to support evolution of numerous industries. By leveraging technologies to digitalise various sectors, such as education, healthcare, transportation and retail, we connect users with more services in a convenient and efficient manner.

Sustainability is vital to the development of our strategy and operations, and we strive to integrate social responsibility into our products and services. For details of our ESG initiatives, please see "*Business – Corporate Operations – Environmental, Social and Governance ("ESG") Initiatives.*"

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 2020, our total revenues was RMB482,064 million (US$73,880 million) and our profit

for the year was RMB160,125 million (US$24,540 million), an increase of 28% and 67%, respectively, over the year ended 31 December 2019. As at 31 December 2020, our cash and cash equivalents, as well as term deposits and others amounted to RMB259,507 million (US$39,771 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 December 2020, combined MAU of *Weixin* and *WeChat* reached 1,225.0 million, an increase of 5.2%, from 1,164.8 million as at 31 December 2019, and smart device MAU of *QQ* was 594.9 million.

We believe the depth of user engagement of our massive online communities is one of 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 digital content services, including video, music, literature, news and others. We have also sought to integrate these digital content services with our social platforms to enhance the holistic and differentiated social experience for our users. The numerous *Weixin* 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, covering more offline consumption scenarios such as retail, healthcare and mobility.

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 leading 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 *Weixin* and *QQ* 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 content services, 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 content services. 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 services 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 advertising networks, where we have experienced robust growth in revenue and advertiser base.

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 payment transaction volume has increased healthily year-on-year, driven by more

daily active consumers and higher payment frequency in multiple vertials, such as retail, public services and groceries. Our large user base and high traffic also brought increasing demands for our other FinTech services, such as wealth management service through *LiCaiTong*, online lending product *WeiliDai* through our affiliate WeBank, a licensed-bank, and insurance service through WeSure, all of which have experienced rapid growth.

For our cloud and other business services, combining our advanced data analytics and artificial intelligence technologies, we have built a comprehensive portfolio of cloud products and services and customised smart industry solutions, accelerating our expansion in different industries. The expanded customer base in key verticals and robust demand for PaaS contributed to the revenue growth in the fourth quarter of 2020.

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. For example, *QQ* is a widely recognised brand in China and users seeking to join a communication and social service will likely consider *QQ* as their primary choice because of the brand recognition and market leading position. Similarly, *Weixin* has become the leading mobile communication and social service in China. In 2020, *Weixin Mini Programs* deepened penetration in more use cases, with annual transaction volume more than doubling year-on-year.

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. Our leadership spans multiple genres, including MOBA, shooter and MMORPG, as well as multiple products, including mobile and PC. 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 2020. We continued to reinforce our position as the preferred Chinese publisher for local and overseas game developers, including *Activision Blizzard, Electronic Arts* and *Nexon* for PC client games, as well as *Kingsoft*, *Giant Interactive* and *Shengqu Games* for smart phone games. Internationally, we expanded our presence through overseas subsidiaries such as *Riot Games* and *Supercell* as well as partnerships and investments, 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, to maintain a healthy gameplay environment for teenagers in China, we made ongoing upgrades to the Healthy Gameplay System, which aims to help parents manage younger users' in-game play time and spending.

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 strategy and many of our services, including *QQ*, *Qzone*, *WeCom*, *WeGame* and *Weixin*, 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 for our digital content services.

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 and RMB187,789 million (US$28,780 million) for the years ended 31 December 2018, 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 in-house development capability and partnerships with external studios 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 leading position and financial success of our social platforms, we must continue to secure high-quality, relevant and diverse digital content that are attractive to our users. For instance, *Tencent Video* has focused on its self-commissioned content strategy in providing high-quality content including animes, drama series and variety shows, attracting a steadily growing subscriber base.

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 deployed an open strategy and strengthened our cooperation with business partners with the aim of enhancing mutual benefits.

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 technological 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 conditions 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 employees was 54,309, 62,885 and 85,858 as at 31 December 2018, 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 RMB42,153 million, RMB53,123 million and RMB69,638 million (US$10,672 million) for the years ended 31 December 2018, 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 years presented in the consolidated financial statements, we derived our revenue substantially 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 mainly include, *Tencent Computer* and *Shiji Kaixuan*. 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;
- Online Advertising;
- FinTech and Business Services; and
- Others.

Our revenues were RMB312,694 million, RMB377,289 million and RMB482,064 million (US$73,880 million) for the years ended 31 December 2018, 2019 and 2020, respectively. The following table sets forth our revenues by line of business for the years indicated:

	Year ended 31 December						
	2018		2019		2020		
	(Audited)		(Audited)		(Audited)		
	(RMB in millions)	% of total revenues	(RMB in millions)	% of total revenues	(RMB in millions)	(US$ in millions)	% of total revenues
Revenues							
VAS	176,646	56%	199,991	53%	264,212	40,492	55%
Online Advertising	58,079	19%	68,377	18%	82,271	12,609	17%
FinTech and Business Services[(1)]	73,138	23%	101,355	27%	128,086	19,630	27%
Others[(1)]	4,831	2%	7,566	2%	7,495	1,149	1%
Total revenues	312,694	100%	377,289	100%	482,064	73,880	100%

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, social networks services, digital content services and applications. Our VAS is primarily provided on a subscription basis, per-item basis or revenue share basis.

We derive online games revenues primarily from sales of in-game virtual items. We have an extensive portfolio of market leading game titles across genres on both smart phone and PC.

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 services, such as video, music and literature. Revenue generated from in-game virtual item sales also attributed to our social networks.

Revenues from VAS were RMB176,646 million, RMB199,991 million and RMB264,212 million (US$40,492 million) for the years ended 31 December 2018, 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*".

Online Advertising

Our Online Advertising services primarily comprise social and others advertising as well as media advertising. Social and others advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Mini Programs*, *Weixin Official Accounts, QQ*, mobile advertising network, live streaming and eSports events. Media advertising relates to advertising on our video, news, music 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 RMB58,079 million, RMB68,377 million and RMB82,271 million (US$12,609 million) for the years ended 31 December 2018, 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*".

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, wealth management, lending and other FinTech services. Cloud service revenues primarily consist of revenue from cloud services and other enterprise-facing activities such as our smart retail initiatives.

Revenues from FinTech and Business Services were RMB73,138 million, RMB101,355 million and RMB128,086 million (US$19,630 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

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

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 RMB4,831 million, RMB7,566 million and RMB7,495 million (US$1,149 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

Cost of revenues

Our cost of revenues was RMB170,574 million, RMB209,756 million and RMB260,532 million (US$39,928 million) for the years ended 31 December 2018, 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 indicated:

	Year ended 31 December						
	2018		2019		2020		
	(Audited)		(Audited)		(Audited)		
	(RMB in millions)	% of segment revenues	(RMB in millions)	% of segment revenues	(RMB in millions)	(US$ in millions)	% of segment revenues
Cost of Revenues							
VAS	73,961	42%	94,086	47%	121,287	18,588	46%
Online Advertising	37,273	64%	34,860	51%	40,011	6,132	49%
FinTech and Business Services[(1)]	54,598	75%	73,831	73%	91,835	14,074	72%
Others[(1)]	4,742	98%	6,979	92%	7,399	1,134	99%
Total cost of revenues	170,574		209,756		260,532	39,928	

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, goodwill and other 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 and related 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 CIT

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

(ii) 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 years ended 31 December 2018, 2019 and 2020.

(iii) 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 our entities established in the Mainland of China for the years ended 31 December 2018, 2019 and 2020. The general PRC CIT rate is 25% in 2018, 2019 and 2020.

Certain subsidiaries in the Mainland of China were approved as High and New Technology Enterprise, and accordingly, they were subject to a preferential CIT rate of 15% for the years ended 31 December 2018, 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 CIT 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.

(iv) CIT 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 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35% for the years ended 31 December 2018, 2019 and 2020.

(v) 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 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, Online Advertising services, FinTech and Business 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 items such as VAS subscriptions across various online platforms, and games revenues attributable to social networks business. We offer virtual items to users on our online platforms. The VAS fees are paid directly by end users mainly via online payment channels.

Revenues 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 items operated on our platforms and allow users to gain access to them, revenue is recognised over the estimated lifespans of the respective virtual items. The estimated lifespans of different virtual items are determined by the management based on either the expected user relationship periods or the stipulated period of validity of the relevant virtual items depending on the respective term of virtual 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 cooperation 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 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.

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 ads for an agreed period of time, and performance-based advertising that are based on actual performance measurement.

Revenue from display-based advertising is recognised on number of display/impression basis 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.

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, wealth management 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 we satisfy our performance obligations 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.

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" or "other receivables" 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 payments 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 satisfaction of the vesting conditions, 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

Year Ended 31 December 2020 Compared to Year Ended 31 December 2019

Revenues. Revenues increased by RMB104,775 million, or 28%, from RMB377,289 million for the year ended 31 December 2019 to RMB482,064 million (US$73,880 million) for the year ended 31 December 2020.

The following table sets forth our revenues by line of business for the years ended 31 December 2019 and 2020:

	Year ended 31 December				
	2019		2020		
	(Audited)		(Audited)		
	Amount	% of total revenues	Amount	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	(US$ in millions)	
VAS	199,991	53%	264,212	40,492	55%
Online Advertising	68,377	18%	82,271	12,609	17%
FinTech and Business Services	101,355	27%	128,086	19,630	27%
Others	7,566	2%	7,495	1,149	1%
Total revenues	**377,289**	**100%**	**482,064**	**73,880**	**100%**

Revenues from VAS business increased by RMB64,221 million, or 32%, from RMB199,991 million for the year ended 31 December 2019 to RMB264,212 million (US$40,492 million) for the year ended 31 December 2020. Online games revenues grew by 36% to RMB156,101 million (US$23,923 million) for the year ended 31 December 2020. The increase was primarily driven by revenue growth from our smart phone games in both domestic and overseas markets, particularly from titles such as *Peacekeeper Elite*, *Honour of King*s and *PUBG Mobile*, as well as the full year effect of *Supercell* consolidation, while our PC client games revenues decreased slightly. Total smart phone games revenues (including smart phone games revenues attributable to our social networks business) were RMB146,608 million (US$22,469 million) and PC client games revenues were RMB44,582 million (US$6,832 million) for the year ended 31 December 2020. Social networks revenues increased by 27% to RMB108,111 million (US$16,569 million) for the year ended 31 December 2020. The increase was primarily due to the consolidation of HUYA's live broadcast services, revenue growth from our music and video subscription services, as well as growth from our in-game virtual item sales.

Revenues from Online Advertising increased by RMB13,894 million, or 20%, from RMB68,377 million for the year ended 31 December 2019 to RMB82,271 million (US$12,609 million) for the year ended 31 December 2020, benefitting from our platform integration and upgraded algorithms, along with rising demand from advertiser categories such as education, Internet services and eCommerce platforms. Social and others advertising revenues grew by 29% to RMB67,979 million (US$10,418 million). The increase was primarily driven by higher advertising revenues from *Weixin* (primarily *Weixin Moments*) as a result of its increased inventories, as well as revenue contributions from our mobile advertising network due to our video format advertisements. Media advertising revenues decreased by 8% to RMB14,292 million (US$2,191 million) for the year ended 31 December 2020. The decrease mainly reflected lower advertising revenues from *Tencent Video* amid the challenging macro environment and delays to content productions and launches, partly offset by advertising revenue growth from our music streaming apps.

Revenues from FinTech and Business Services increased by RMB26,731 million, or 26%, from RMB101,355 million for the year ended 31 December 2019 to RMB128,086 million (US$19,630 million) for the year ended 31 December 2020. The increase primarily reflected higher revenues from commercial payment, wealth management and Cloud Services, driven by our expanded user base and business scale.

Cost of revenues. Cost of revenues increased by RMB50,776 million, or 24%, from RMB209,756 million for the year ended 31 December 2019 to RMB260,532 million (US$39,928 million) for the year ended 31 December 2020. The increase was mainly due to greater channel and distribution costs, server and bandwidth costs, as well as transaction costs of FinTech services. As a percentage of revenues, cost of revenues decreased to 54% for the year ended 31 December 2020 from 56% for the year ended 31 December 2019.

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

	Year ended 31 December				
	2019		2020		
	(Audited)		(Audited)		
	Amount	% of segment revenues	Amount	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	(US$ in millions)	
VAS	94,086	47%	121,287	18,588	46%
Online Advertising	34,860	51%	40,011	6,132	49%
FinTech and Business Services	73,831	73%	91,835	14,074	72%
Others	6,979	92%	7,399	1,134	99%
Total cost of revenues	**209,756**		**260,532**	**39,928**	

Cost of revenues for VAS increased by RMB27,201 million, or 29%, from RMB94,086 million for the year ended 31 December 2019 to RMB121,287 million (US$18,588 million) for the year ended 31 December 2020. The increase was mainly driven by greater content costs for live broadcast and video subscription services, as well as costs for smart phone games, including those associated with the consolidations of Supercell and HUYA.

Cost of revenues for Online Advertising increased by RMB5,151 million, or 15%, from RMB34,860 million for the year ended 31 December 2019 to RMB40,011 million (US$6,132 million) for the year ended 31 December 2020. The increase was mainly due to greater traffic acquisition, server and bandwidth costs, partly offset by lower content costs associated with variety shows and sports events.

Cost of revenues for FinTech and Business Services increased by RMB18,004 million, or 24%, from RMB73,831 million for the year ended 31 December 2019 to RMB91,835 million (US$14,074 million) for the year ended 31 December 2020. The increase primarily reflected greater transaction costs resulting from TPV growth, as well as higher server and bandwidth costs due to expansion of our Cloud Services business.

Gross profit. Gross profit increased by RMB53,999 million, or 32%, from RMB167,533 million for the year ended 31 December 2019 to RMB221,532 million (US$33,952 million) for the year ended 31 December 2020. Our gross margin was 46% for the year ended 31 December 2020 as compared to 44% for the year ended 31 December 2019.

Interest income. Interest income increased by RMB643 million, or 10%, from RMB6,314 million for the year ended 31 December 2019 to RMB6,957 million (US$1,066 million) for the year ended 31 December 2020.

Other gains, net. We recorded net other gains of RMB57,131 million (US$8,756 million) for the year ended 31 December 2020, which were primarily non-IFRS adjustment items including net fair value gains arising from increased valuations for certain investee companies in verticals such as social media, online games, electric vehicles and eCommerce, as well as net gains on deemed disposals arising from the capital activities of certain investee companies in the eCommerce and online games verticals, partly offset by impairment provisions reflecting revised valuations of certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by RMB12,362 million, or 58%, from RMB21,396 million for the year ended 31 December 2019 to RMB33,758 million (US$5,174 million) for the year ended 31 December 2020. The increase primarily reflected greater marketing spending for online games and the impact of recent consolidations, as well as marketing to support long-term strategic initiatives including short form video, cloud-based healthcare solutions, online education and remote work. As a percentage of revenues, selling and marketing expenses increased to 7% for the year ended 31 December 2020 from 6% for the year ended 31 December 2019.

General and administrative expenses. General and administrative expenses increased by RMB14,179 million, or 27%, from RMB53,446 million for the year ended 31 December 2019 to RMB67,625 million (US$10,364 million) for the year ended 31 December 2020. The increase was primarily driven by greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses were 14% for the year ended 31 December 2020, broadly stable year-on-year.

Operating profit. Operating profit increased by RMB65,543 million, or 55%, from RMB118,694 million for the year ended 31 December 2019 to RMB184,237 million (US$28,236 million) for the year ended 31 December 2020.

Finance costs, net. Net finance costs increased by RMB274 million, or 4%, from RMB7,613 million for the year ended 31 December 2019 to RMB7,887 million (US$1,209 million) for the year ended 31 December 2020. The increase primarily reflected foreign exchange losses recognised this year compared to gains for previous year, partially offset by lower interest expenses resulting from reduced average cost of funds.

Share of profit/(loss) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB3,672 million (US$562 million) for the year ended 31 December 2020, compared to share of losses of RMB1,681 million for the year ended 31 December 2019. The change was substantially due to non-IFRS adjustment items of certain associates and improved performance of certain associates in verticals such as eCommerce.

Profit before income tax. Profit before income tax increased by RMB70,622 million, or 65%, from RMB109,400 million for the year ended 31 December 2019 to RMB180,022 million (US$27,589 million) for the year ended 31 December 2020.

Income tax expense. Income tax expense was RMB13,512 million and RMB19,897 million (US$3,049 million) for the year ended 31 December 2019 and 2020, respectively. The increase was mainly driven by higher taxable income.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB64,237 million, or 67%, from RMB95,888 million for the year ended 31 December 2019 to RMB160,125 million (US$24,540 million) for the year ended 31 December 2020. Our profit margin increased from 25% for the year ended 31 December 2019 to 33% for the year ended 31 December 2020.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 71% to RMB159,847 million (US$24,498 million) for the year ended 31 December 2020 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company[12] increased by 30% year-on-year to RMB122,742 million (US$18,811 million) for the year ended 31 December 2020.

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%
Online Advertising	58,079	19%	68,377	18%
FinTech and Business Services(1)	73,138	23%	101,355	27%

[12] 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/(reversals) and the related income tax effects.

	Year ended 31 December			
	2018		2019	
	(Audited)		(Audited)	
	Amount (Restated)	% of total revenues (Restated)	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	
Others[(1)]	4,831	2%	7,566	2%
Total revenues	**312,694**	**100%**	**377,289**	**100%**

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 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 *Weixin 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 digital content services 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.

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.

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%
Online Advertising	37,273	64%	34,860	51%
FinTech and Business Services[(1)]	54,598	75%	73,831	73%
Others[(1)]	4,742	98%	6,979	92%
Total cost of revenues	**170,574**		**209,756**	

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 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.

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.

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.

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. Results of operations for any quarter are not necessarily indicative of results for any future quarters or full year.

	Three months ended (Unaudited)							
	31 March 2019	**30 June 2019**	**30 September 2019**	**31 December 2019**	**31 March 2020**	**30 June 2020**	**30 September 2020**	**31 December 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)
Revenues:								
VAS	48,974	48,080	50,629	52,308	62,429	65,002	69,802	66,979
Online Advertising	13,377	16,409	18,366	20,225	17,713	18,552	21,351	24,655
FinTech and Business Services	21,789	22,888	26,758	29,920	26,475	29,862	33,255	38,494
Others	1,325	1,444	1,483	3,314	1,448	1,467	1,039	3,541
Total revenues	**85,465**	**88,821**	**97,236**	**105,767**	**108,065**	**114,883**	**125,447**	**133,669**
Cost of revenues	(45,645)	(49,695)	(54,757)	(59,659)	(55,271)	(61,673)	(68,800)	(74,788)
Gross profit	**39,820**	**39,126**	**42,479**	**46,108**	**52,794**	**53,210**	**56,647**	**58,881**
Interest income	1,408	1,652	1,674	1,580	1,636	1,749	1,864	1,708
Other gains, net	11,089	4,038	932	3,630	4,037	8,607	11,551	32,936
Selling and marketing expenses	(4,244)	(4,718)	(5,722)	(6,712)	(7,049)	(7,756)	(8,920)	(10,033)
General and administrative expenses	(11,331)	(12,577)	(13,536)	(16,002)	(14,158)	(16,499)	(17,189)	(19,779)
Operating profit	**36,742**	**27,521**	**25,827**	**28,604**	**37,260**	**39,311**	**43,953**	**63,713**
Finance costs, net	(1,117)	(1,982)	(1,747)	(2,767)	(1,684)	(2,005)	(1,945)	(2,253)
Share of (loss)/profit of associates and joint ventures	(2,957)	2,370	234	(1,328)	(281)	(295)	2,630	1,618
Profit before income tax	**32,668**	**27,909**	**24,314**	**24,509**	**35,295**	**37,011**	**44,638**	**63,078**
Income tax expense	(4,812)	(3,225)	(3,338)	(2,137)	(5,892)	(4,557)	(5,739)	(3,709)
Profit for the period	**27,856**	**24,684**	**20,976**	**22,372**	**29,403**	**32,454**	**38,899**	**59,369**

We experienced growth in our quarterly revenues for the eight quarters in the period from 1 January 2019 to 31 December 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), selling 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 RMB97,814 million, RMB132,991 million and RMB152,798 million (US$23,417 million) as at 31 December 2018, 2019 and 2020, respectively. Our term deposits and others included in current and non-current assets were RMB69,305 million, RMB72,270 million and RMB106,709 million (US$16,354 million) as at 31 December 2018, 2019 and 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) and online banking. A majority of our revenues from VAS are prepaid, allowing us to minimise our credit risk.

Our accounts receivable were RMB28,427 million, RMB35,839 million and RMB44,981 million (US$6,894 million) as at 31 December 2018, 2019 and 2020, respectively which mainly represented amounts due from online advertising customers and agencies, content production related customers, FinTech and cloud customers, and third-party platform providers. Some online advertising customers and agencies are usually granted with a credit period within 90 days immediately following the month-end in which the relevant 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.

Our accounts payable were RMB73,735 million, RMB80,690 million and RMB94,030 million (US$14,411 million) as at 31 December 2018, 2019 and 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 2018, 2019 and 2020:

	Year ended 31 December			
	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Net cash flows generated from operating activities[3]	110,936	148,590	194,119	29,750
Net cash flows used in investing activities[1]	(151,913)	(116,170)	(181,955)	(27,886)
Net cash flows generated from financing activities[2][3]	30,887	1,672	13,647	2,091
Net (decrease)/increase in cash and cash equivalents	(10,090)	34,092	25,811	3,955
Cash and cash equivalents at beginning of the year	105,697	97,814	132,991	20,382
Exchange gains/(losses) on cash and cash equivalents	2,207	1,085	(6,004)	(920)
Cash and cash equivalents at end of the year	97,814	132,991	152,798	23,417

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 RMB23,092 million, RMB28,331 million and RMB40,961 million (US$6,278 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

(2) Includes, among others, dividends paid to our shareholders and non-controlling interest owners, which amounted to RMB7,396 million, RMB9,453 million and RMB11,418 million (US$1,750 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

(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

In 2020, we had a net cash inflow from operating activities in the amount of RMB194,119 million (US$29,750 million). This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB187,018 million and changes in working capital in the amount of RMB27,423 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB20,322 million. The changes in working capital primarily consisted of (i) an increase in deferred revenue of RMB18,184 million, (ii) an increase in accounts payable of RMB13,033 million, (iii) an increase in other payables and accruals of RMB2,828 million, (iv) an increase in other tax liabilities of RMB886 million, and (v) a decrease in prepayments, deposits and other receivables of RMB117 million, partially offset by (i) an increase in accounts receivable of RMB7,530 million, and (ii) an increase in inventories of RMB95 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.

Cash Flows from Investing Activities

Net cash used in investing activities for the year ended 31 December 2020 was RMB181,955 million (US$27,886 million), primarily reflecting the payments for acquisition of financial assets at fair value through profit or loss in the amount of RMB60,066 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB34,070 million, payments for acquisition of investments in associates in the amount of RMB30,533 million, purchase of or prepayment for intangible assets in the amount of RMB27,182 million, net placement flow of term deposits with initial terms of over three months in the amount of RMB26,992 million, payments for business combinations, net of cash acquired in the amount of RMB15,097 million and payments for acquisition of financial assets at fair value through other comprehensive income in the amount of RMB12,719 million, partially offset by proceeds from disposals of financial assets at fair value through profit or loss in the amount of RMB13,168 million and proceeds from disposals of financial assets at fair value through other comprehensive income in the amount of RMB7,648 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 instruments 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.

Cash Flows from Financing Activities

Net cash generated from financing activities for the year ended 31 December 2020 was RMB13,647 million (US$2,091 million), primarily reflecting net proceeds from issuance of notes payable of RMB47,948 million, proceeds from long-term borrowings of RMB26,323 million and proceeds from short-term borrowings of RMB5,090 million, partially offset by repayments of long-term borrowings of RMB15,899 million, dividends paid to our shareholders and the non-controlling interests of RMB11,418 million, repayments of notes payable of RMB10,460 million, payments for acquisition of non-controlling interests in non wholly-owned subsidiaries of RMB9,263 million, repayments of short-term borrowings of RMB8,512 million, and interest paid of RMB7,076 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.

Capital Expenditure

Our 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), were RMB23,941 million, RMB32,369 million and RMB33,960 million (US$5,205 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

We believe that our existing cash and cash equivalents, cash flows from operations and 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 RMB114,271 million, RMB126,952 million and RMB126,387 million (US$19,370 million) as at 31 December 2018, 2019 and 2020, respectively.

Our total notes payable amounted to RMB65,018 million, RMB93,861 million and RMB122,057 million (US$18,706 million) as at 31 December 2018, 2019 and 2020, respectively. 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 Floating Rate 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*". On 3 June 2020, we completed the issue of the January 2026 Notes. The January 2026 Notes bear an interest of 1.810% per annum from 3 June 2020, payable semi-annually in arrears on 26 January and 26 July of each year. The January 2026 Notes will mature on 26 January 2026. See "*Description of Other Material Indebtedness — January 2026 Notes*". On 3 June 2020, we completed the issue of the 2030 Notes. The 2030 Notes bear an interest of 2.390% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2030 Notes will mature on 3 June 2030. See "*Description of Other Material Indebtedness — 2030 Notes*". On 3 June 2020, we completed the issue of the 2050 Notes. The 2050 Notes bear an interest of 3.240% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2050 Notes will mature on 3 June 2050. See "*Description of Other Material Indebtedness — 2050 Notes*". On 3 June 2020, we completed the issue of the 2060 Notes. The 2060 Notes bear an interest of 3.290% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2060 Notes will mature on 3 June 2060. See "*Description of Other Material Indebtedness — 2060 Notes*". On 3 September 2020, TME completed the issue of the TME 2025 Notes. The TME 2025 Notes bear an interest of 1.375% per annum from 3 September 2020, payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2025 Notes will mature on 3 September 2025. See "*Description of Other Material Indebtedness — TME 2025 Notes*". On 3 September 2020, TME completed the issue of the TME 2030 Notes. The TME 2030 Notes bear an interest of 2.000% per annum from 3 September 2020, payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2030 Notes will mature on 3 September 2030. See "*Description of Other Material Indebtedness — TME 2030 Notes*".

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

	As at 31 December			
	2018	2019	2020	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(US$ in millions)
Current:				
USD bank borrowings, unsecured[(1)]	16,403	6,627	9,135	1,400
RMB bank borrowings				
– unsecured[(1)]	628	902	4,079	625
– secured[(1)]	–	201	100	16
HKD bank borrowings				
– unsecured[(1)]	3,368	9,298	–	–
– secured[(1)]	–	–	144	22
Current portion of long-term USD bank borrowings, unsecured[(2)]	5,628	140	783	120
Current portion of long-term EUR bank borrowings, secured[(2)]	–	–	1	–
Current portion of long-term RMB bank borrowings				
– unsecured[(2)]	332	4,633	–	–
– secured[(2)]	475	–	–	–
Current portion of long-term HKD bank borrowings, unsecured[(2)]	–	894	–	–
	26,834	22,695	14,242	2,183
Non-Current:				
Non-current portion of long-term USD bank borrowings, unsecured[(2)]	70,938	88,354	110,629	16,955
Non-current portion of long-term EUR bank borrowings				
– unsecured[(2)]	–	1,172	1,204	184
– secured[(2)]	–	–	12	2
Non-current portion of long-term RMB bank borrowings, unsecured[(2)]	11,189	10,196	300	46
Non-current portion of long-term HKD bank borrowings, unsecured[(2)]	5,310	4,535	–	–
	87,437	104,257	112,145	17,187
Total borrowings	**114,271**	**126,952**	**126,387**	**19,370**
Current:				
Notes payable[(3)]	13,720	10,534	–	–
Non-current:				
Notes payable[(3)]	51,298	83,327	122,057	18,706
Total notes payable	**65,018**	**93,861**	**122,057**	**18,706**
Total	**179,289**	**220,813**	**248,444**	**38,076**

Note:

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

	As at 31 December 2018		As at 31 December 2019		As at 31 December 2020	
	Amount (in millions)	Interest rate (per annum)	Amount (in millions)	Interest rate (per annum)	Amount (in millions)	Interest rate (per annum)
USD bank borrowings...	USD2,390	LIBOR + 0.50% ~ 0.55%	USD950	LIBOR + 0.50%	USD1,400	LIBOR + 0.45% ~ 0.50%
HKD bank borrowings..	HKD3,850	HIBOR + 0.50% ~ 0.55%	HKD10,395	HIBOR + 0.45% ~ 0.50%	HKD171	HIBOR + 0.90% ~ 3.90%
RMB bank borrowings..	RMB628	5.22% ~ 5.44%	RMB1,103	3.60% ~ 5.22%	RMB4,179	3.55% ~ 5.22%

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

	As at 31 December 2018		As at 31 December 2019		As at 31 December 2020	
	Amount (in millions)	Interest rate (per annum)	Amount (in millions)	Interest rate (per annum)	Amount (in millions)	Interest rate (per annum)
USD bank borrowings...	USD11,156	LIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875%	USD12,685	LIBOR + 0.70% ~ 1.27%	USD17,075	LIBOR + 0.70% ~ 1.27%
EUR bank borrowings...	–	–	EUR150	0.52%	EUR151	0.52% ~ 1.00%
HKD bank borrowings..	HKD6,070	HIBOR + 0.70% ~ 0.85%	HKD6,070	HIBOR + 0.70% ~ 0.80%	–	–
RMB bank borrowings..	RMB11,996	4.18% ~ 9.00%	RMB14,829	4.18% ~ 5.70%	RMB300	5.70%

(3) 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 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 Floating Rate 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 were issued at 100.0% 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. On 3 June 2020, we completed the issue of the January 2026 Notes in an aggregate amount of US$1,000 million that will mature on 26 January 2026. The January 2026 Notes bear an interest of

1.810% per annum from 3 June 2020, payable semi-annually in arrears on 26 January and 26 July of each year. The January 2026 Notes were issued at 99.988% of the aggregate principal amount. On 3 June 2020, we completed the issue of the 2030 Notes in an aggregate amount of US$2,250 million that will mature on 3 June 2030. The 2030 Notes bear an interest of 2.390% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2030 Notes were issued at 99.973% of the aggregate principal amount. On 3 June 2020, we completed the issue of the 2050 Notes in an aggregate amount of US$2,000 million that will mature on 3 June 2050. The 2050 Notes bear an interest of 3.240% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2050 Notes were issued at 99.943% of the aggregate principal amount. On 3 June 2020, we completed the issue of the 2060 Notes in an aggregate amount of US$750 million that will mature on 3 June 2060. The 2060 Notes bear an interest of 3.290% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2060 Notes were issued at 99.934% of the aggregate principal amount. On 3 September 2020, TME completed the issue of the TME 2025 Notes in an aggregate amount of US$300 million that will mature on 3 September 2025. The TME 2025 Notes bear an interest of 1.375% per annum from 3 September 2020, payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2025 Notes were issued at 99.928% of the aggregate principal amount. On 3 September 2020, TME completed the issue of the TME 2030 Notes in an aggregate amount of US$500 million that will mature on 3 September 2030. The TME 2030 Notes bear an interest of 2.000% per annum from 3 September 2020, payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2030 Notes were issued at 99.595% 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			
	2018	2019	2020	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(US$ in millions)
Contracted:				
Construction/purchase of buildings and purchase of land use rights	2,219	4,180	3,541	543
Purchase of other property, plant and equipment	357	331	391	60
Capital investment in investees	8,763	18,206	21,656	3,319
Total	**11,339**	**22,717**	**25,588**	**3,922**

Operating Lease Commitments[(1)]

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
	2018
	(Audited) (RMB in millions)
Contracted:	
Not later than one year	2,632
Later than one year and not later than five years	7,398
Later than five years	2,264
Total	**12,294**

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			
	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Contracted:				
Not later than one year	7,260	12,405	11,443	1,754
Later than one year and not later than five years	8,332	17,647	9,847	1,509
Later than five years	2,279	3,323	4,199	643
Total	**17,871**	**33,375**	**25,489**	**3,906**

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 December 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 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.

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 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 manage our cash flow interest rate risk by using interest rate swaps, whenever considered necessary.

We entered into certain interest rate swap contracts to hedge our exposure arising from our borrowings and senior notes 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 and senior notes 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 online 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 is assessed, which takes into account their financial position, past experience and other factors. We have a large number of customers and there is no significant concentration of credit risk.

Other receivables are mainly comprised of receivables related to financial services, interest receivables, loans to investees and investees' shareholders, lease deposits and other receivables. Management manages the loans by category, makes periodic assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

For financial assets whose impairment losses are measured using expected credit loss ("ECL") model, we assess whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognise their ECL, as follows:

- Stage 1: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage 1.

- Stage 2: If the credit risk has increased significantly since its initial recognition but not yet deemed to be credit-impaired, the financial instrument is included in stage 2.

- Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in stage 3.

We consider the credit risk characteristics of different financial instruments when determining if there is significant increase in credit risk. For financial instruments with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively.

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 behaviour of the counterparty, including changes in the payment status of the counterparty.

i. Credit risk of cash and deposits

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 2020 and the corresponding historical credit losses experienced within this period, or probability of a receivable progressing through successive stages of delinquency to write-off. 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 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 issuer 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.

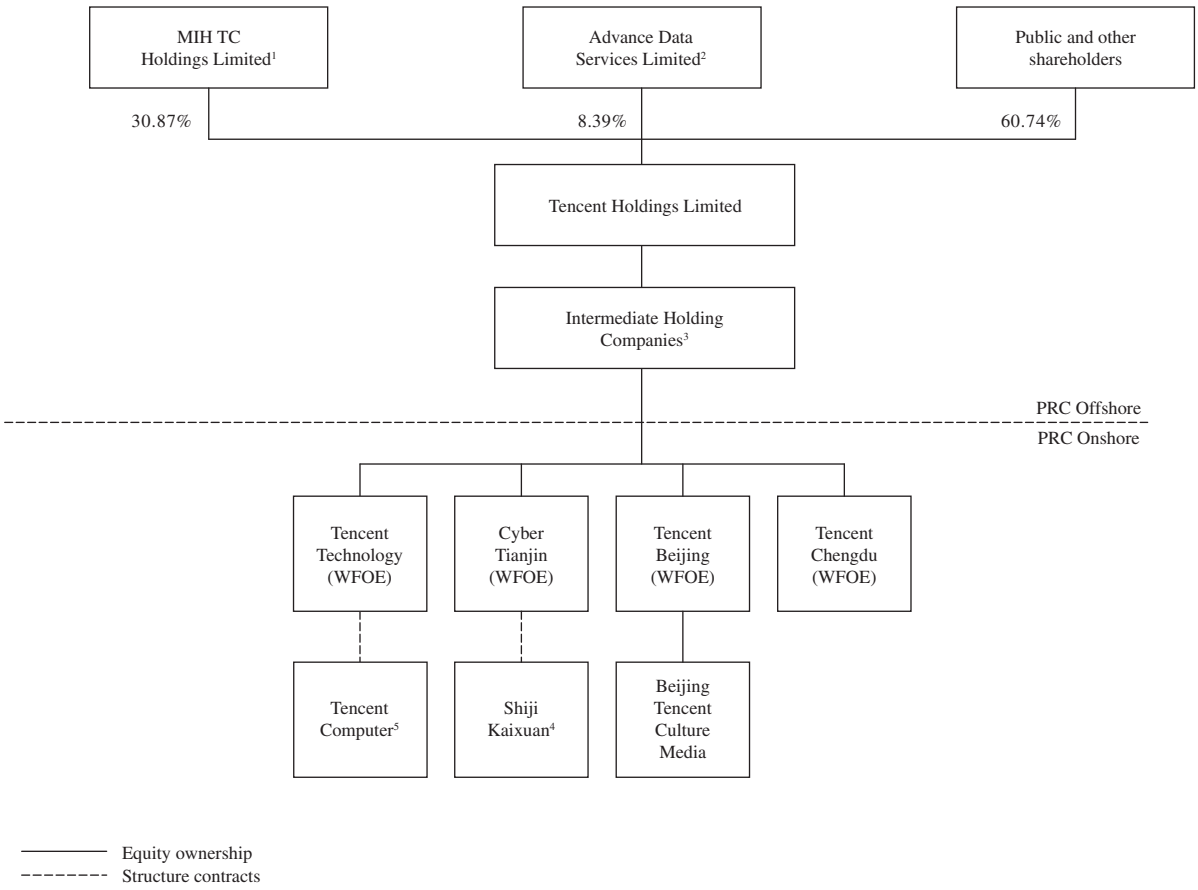
Liquidity risk

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.

OUR CORPORATE STRUCTURE

We were incorporated in the British Virgin Islands on 23 November 1999 as an international business company with limited liability. We redomiciled to the Cayman Islands on 27 February 2004 and continued as an exempted company with limited liability under the Cayman Islands Companies Law.

The following diagram illustrates our principal corporate and share ownership structure as at 31 December 2020.



Note:

(1) MIH TC Holdings Limited is controlled by Naspers Limited indirectly through its non wholly-owned intermediary companies, Prosus N.V. and MIH Internet Holdings B.V. MIH TC Holdings Limited entered into a placing agreement with the placing agents on 8 April 2021 in relation to the disposal of an aggregate of 191,890,000 shares, representing approximately 2% of the total number of issued shares of the Company. Immediately upon completion of such disposal, MIH TC Holdings Limited holds 2,769,333,600 shares, representing approximately 28.86% of the total number of issued shares of the Company.

(2) Advance Data Services Limited holds 709,859,700 shares directly and 95,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. Advance Data Services Limited is wholly-owned by Mr. Ma Huateng.

(3) Intermediate Holding Companies include various Group companies established for the purpose of holding interests in various WFOEs as well as other investments of the Group.

(4) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.

(5) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.

We primarily conduct our Chinese operations through our WFOEs, including *Tencent Technology*, *Cyber Tianjin*, *Tencent Beijing* and *Tencent Chengdu*. The Company holds its interests in the WFOEs through certain intermediate holding companies wholly-owned by the Company. Our WFOEs employ a substantial portion of our staff, develop the principal software (other than software acquired from third-party providers) for our operations and hold our principal intellectual property rights.

STRUCTURE CONTRACTS

PRC regulations currently restrict foreign ownership of companies that provide Internet services, value-added telecommunications services and other related services. See also "*General Regulation on Internet and Telecommunications Industries*". As foreign-invested enterprises, our WFOEs do not have licences to provide Internet content or information services and other value-added telecommunications services. Accordingly, we conduct Internet businesses, our value-added telecommunications businesses and other related businesses mainly through *Tencent Computer* and other consolidated affiliated entities, under a series of contractual agreements (collectively, the "**Structure Contracts**") entered into among certain of our WFOEs, consolidated affiliated entities and shareholders of our consolidated affiliated entities. *Tencent Computer* is licenced to provide Internet information services, value-added telecommunications services and other related services and operate those services. The shareholders of *Tencent Computer* are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.

As a result of the Structure Contracts, the Group is able to effectively control, and recognise and receive substantially all the economic benefit of the business and operations of, our consolidated affiliated entities. In summary, the Structure Contracts provide the Company through the WFOEs with, among other things:

- the right to receive the cash received by the consolidated affiliated entities from their operations which is surplus to their requirements, having regard to their forecast working capital needs, capital expenditure and other short-term anticipated expenditure through various commercial arrangements;

- the right to ensure that the WFOEs own the valuable assets of the business through the assignment to the WFOEs of the principal present and future intellectual property rights of the consolidated affiliated entities without making any payment; and

- the right to control the management and financial and operating policies of the consolidated affiliated entities.

The Structure Contracts establish a cooperation committee (the "**Co-operation Committee**") for each of the consolidated affiliated entities to oversee its business and operations. The Co-operation Committees advise, supervise and effectively control the businesses of the consolidated affiliated entities. Through the Co-operation Committees, the WFOEs advise, supervise and effectively control the business of the consolidated affiliated entities. Under the Structure Contracts, the Co-operation Committees will adopt an internal governance mechanism for payments, expenditure and expenditure-related contracts. Our approval matrix is required to be consistent throughout the Group and can be amended only by the Directors of the Company, and any such amendment applies to all members of the Group.

The Structure Contracts also effectively transfer from the consolidated affiliated entities to the WFOEs all of the cash that is surplus to the requirements of the consolidated affiliated entities, primarily in the form of fees paid for the WFOE's provision of certain technology and information services to the consolidated affiliated entities under the applicable Structure Contracts between the WFOEs and the consolidated affiliated entities. The Co-operation Committee determines and adjusts periodically the fees to be paid by the consolidated affiliated entities to the WFOEs to ensure that all such surplus cash of the consolidated affiliated entities is transferred to the WFOEs.

These arrangements, taken as a whole, permit the results and financial condition of the consolidated affiliated entities to be consolidated with the Company as if they were subsidiaries of the Company and that the economic benefit of their businesses flows to the Company and the WFOEs.

Our PRC legal counsel, Han Kun Law Offices, is of the opinion that the Structure Contracts setting forth our contractual arrangements among *Tencent Technology*, *Tencent Computer* and shareholders of *Tencent Computer* who are Chinese individuals have been duly authorised, executed and delivered by the applicable Chinese companies and Chinese individuals who are parties thereto and that each of the Structure Contracts (i) constitutes a legal, valid and binding obligation of the Chinese companies and Chinese individuals who are parties thereto and is enforceable against such parties in accordance with its terms, subject, as to enforceability, to bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles; and (ii) is in compliance with, and does not violate any applicable existing requirements of, PRC Laws. In providing their opinion our counsel has noted that there are ongoing uncertainties and risks in this area as further described under "*Risk Factors — Risks Related to our Corporate Structure*" and "*General Regulation on Internet and Telecommunications Industries*".

OUR MISSION AND VISION

Our mission and vision is "Value for Users, Tech for Good", guided by our values of "Integrity, Proactivity, Collaboration and Creativity". Throughout our history, 'users' and 'responsibilities' are at the heart of everything we do. We prioritise the needs of our users and incorporate the consideration of social responsibilities in our products and services. We strive to innovate technologies while honoring our culture and traditions. We support various industries to upgrade digitally and promote the sustainable development of society.

OVERVIEW

We are a leading Internet services company operating a broad range of Internet services including communication and social services, 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. Our expansive product offerings, advanced technologies and infrastructure services form a hub for fulfilling people's everyday needs.

We operate the largest communication and social community in China in terms of user base through *Weixin and QQ*. Our highly-engaged communication and social services are the foundation of our online community and provide a gateway to our VAS, connecting our users with products, services and enterprises. We had the largest number of DAU and MAU among social communities on both mobile and PC in February 2021, according to iResearch. *Weixin* and *WeChat* had a combined MAU of 1,225.0 million and *QQ* had a smart device MAU of 594.9 million as at 31 December 2020.

As an industry leader and global pioneer of innovative technology solutions, our products and services connect users, content providers, enterprises and developers. Our social products link our users to a vast array of best-in-class digital content and multimedia services across the globe. *Weixin* shapes consumers' digital lives in China. Each day, more than 120 million users post in *Weixin Moments*, 360 million users read *Weixin Official Accounts* articles and 400 million users access *Weixin Mini Programs*. Services such as *Weixin Pay* and *Weixin Mini Programs* are becoming increasingly interconnected and serve as central hubs of mobile connectivity. At the same time, SMEs and brands increasingly connect with users via *Weixin*. For example, *Weixin Pay* facilitates easy and secure online and offline transactions, organically connecting users with businesses. It provides convenient access to other high frequency services within its interface as well, which are grouped under the four verticals of Financial Services, Daily Services, Travel & Transportation, and Shopping & Entertainment. *Weixin Mini Programs* connect online and offline services with users on *Weixin*. They help companies digitalise their businesses by tapping into the growing smart-business and smart-living needs of our user base, covering a massive spectrum of traditionally offline consumption scenarios such as retail, healthcare, and mobility. In 2020, *Weixin Mini Programs* deepened its penetration into even more use cases, with annual transaction volume more than doubling year-on-year. Within *QQ*, we focused on enhancing interactive experiences in vertical communities. *QQ* allows us to increase stickiness among young users by enriching communal experiences such as playing AI-powered social games and watching *Tencent Video* together in video calls. We also provide interactive learning experiences such as quiz challenges through partnering with educational institutions. We launched *Video Accounts* as a separate ID-based, short form content creation product that allows individuals, media and businesses to share content and engage with readers and customers, and strengthen brand awareness and content management. *Video Accounts* facilitate public sharing of informative and entertainment content in video and live streaming formats, and link public and private domains to help content creators and brands acquire and manage customers more efficiently. Users are increasingly uploading personal videos, and sharing them with friends, in *Weixin Moments* and chats. *Video Accounts* also enable brands and enterprises to broaden their audience reach and drive transactions, especially via links to *Weixin Mini Programs*.

Leveraging our massive user base, we have developed leading digital content services offering a broad range of high-quality content. We have curated popular IP and extended our IP value across various forms, such as literature, anime, games and long form video services, to create appealing content and attract paying users. We are the leader in the long form video industry, with 123 million video subscriptions as at 31 December 2020, benefitting from recent releases of popular anime IPs and drama series. We are also building vibrant short form video communities to encourage interaction between viewers and creators, and to deliver knowledge-based video content. We offer premium music content through *TME*, with over 622 million average mobile MAU in online music and 223 million average MAU in social entertainment in the last quarter of 2020. We operate a leading online content library and publisher in China, *China Literature,* as measured by the scale and quality of writers, readers and literary content offerings. At *China Literature*, we have sought to enrich free and paid content, community features and an IP-centric ecosystem. By driving synergies across our digital content services, we have significantly enhanced the value of our IP portfolio.

We are the largest online game service provider globally as measured by revenues in 2020. We have developed and published highly popular games in a variety of genres. During 2020, we experienced rapid growth in our international online game business due to our enhanced development and publishing capabilities. Our global games segment revenue grew 36% year-on-year in 2020. We strengthened our global leadership in mobile and PC games via self-developed franchises and IP collaboration with partners and investee companies. Our leadership spans multiple genres, including battle arena, action and role-playing games, as well as multiple products, across mobile and PC. *Honour of Kings* was the top-grossing mobile game worldwide in 2020 for the second consecutive year and continued as the most popular mobile game in China by MAU. As at 31 December 2020, we, together with our majority owned subsidiaries, had developed 4 of the top 10 smart phone games by MAU globally, according to QuestMobile and App Annie.

Our substantial and engaged user base, combined with our unique data insights and advanced digital advertising technology, present an attractive proposition to advertisers. Our online advertising services primarily comprise social and others advertising and media advertising. Social and other advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Mini Programs*, *Weixin Official Accounts, QQ,* other tools such as *QQ Browser*, as well as our mobile advertising network. Media advertising relates to advertising on our video, news, music and other online media properties. The significant traffic across our various properties offers ample advertising opportunities. We have integrated our advertising platforms, strengthened our own properties as well as mobile advertising network and providing unified access to full range of our own and third-party advertising inventories, which makes us the preferred choice for advertisers. In *Weixin Moments*, we enabled performance-oriented advertisers to link their advertisements to *Weixin Mini Programs*, boosting their sales conversion. Our mobile advertising network offers customised in-app advertising solutions, ramping up in-game advertising revenue from third-party game companies and Internet service providers.

For our FinTech business, since its launch, we have been working closely with regulators and collaborating with industry partners to deliver compliant and inclusive FinTech products, while prioritizing risk management over scale. Our payment service has expanded from social to commercial activities, and from online to offline transactions. We create value for society by providing social payment services, such as red packets and bill sharing. Our commercial payment services facilitate fast and seamless experiences for both eCommerce transactions and offline consumption scenarios. We innovate to offer efficient payments solutions including QR code payment for merchants and users, as well as scan-to-buy for in-store purchase and check-out services which are widely adopted by supermarket chain stores. Our robust payment system provides high levels of payment security, service reliability and transaction speed. Our payment transaction volume has increased healthily year-on-year, driven by more daily active consumers and higher payment frequency in multiple verticals, such as retail, public services and groceries. Our commercial take rates have remained stable. We also offer wealth management services through *LiCaiTong*, our small-sized consumer loan product *WeiLiDai* through our affiliate WeBank, a licensed-bank, and insurance services through *WeSure*.

In our cloud and 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. Our cloud services are the foundation for our smart industry solutions, helping to digitally transform and empower businesses that have conventionally operated offline. *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. We invested in IaaS technology, including our customised "Star Lake" cloud server solutions and self-developed data centre technology "T-block", to enhance our cloud services' performance and cost efficiency. We have been working with partners to upgrade our PaaS solutions by increasing the adoption of security and real-time communication PaaS. In the area of SaaS products, *Tencent Meeting* has become the largest standalone app for cloud conferencing in China with total users exceeding 100 million as at 31 December 2020. *WeCom*, the enterprise version of *Weixin*, has become an integral communications tool for remote workplaces, having served over 5.5 million enterprises, better connecting them internally and to over 400 million *Weixin* users as at 31 December 2020.

In addition to growing our core businesses organically, we further broaden the types and the number of services offered to our users by enabling third-party partners to offer services and products within our products. Through strategic partnerships with category leaders, we continue to deepen engagement with our users and build our ecosystem. We, including our affiliates such as *JD.com*, *Meituan*, *Pinduoduo*, provide services across a variety of Internet categories.

As we focus our management attention and company resources on innovation within our own core products, we also make strategic investments in high-quality management teams and best-in-class companies. 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 to drive innovation and achieve a better understanding of frontier technologies, 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 with infrastructure, technology and capital support to bolster their growth. We support their independent growth and innovation, and strive to pursue synergies that add value for our users.

We continue to extend our "Connection" strategy from connecting people to people, to connecting people to content and services, and more recently to connecting industries, consumers and business partners with one another. In Consumer Internet, we identify investments which capture emerging opportunities arising from technological advancement and changes in user behavior. User value and product experience are top priorities for us. Our key areas of investment include content, games, FinTech, cloud, smart retail and education. In Industrial Internet, we seek to build close partnerships with value chain players to support evolution of numerous industries. By leveraging technologies to digitalise various sectors, such as education, healthcare, transportation and retail, we connect users with more services in a convenient and efficient manner.

Sustainability is vital to the development of our strategy and operations, and we strive to integrate social responsibility into our products and services. For details of our ESG initiatives, please see "*Corporate Operations — Environmental, Social and Governance ("ESG") Initiatives.*"

OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

Leading Apps with Massive and Highly Engaged User Base

We operate the largest communication and social community in China in terms of user base, with 1,225.0 million combined MAU of *Weixin* and *WeChat* and 594.9 million smart device MAU of *QQ* as at 31 December 2020. We operate two of the top ten social services in the world as at January 2021, namely *Weixin* and *QQ*, according to We Are Social and Hootsuite.

Weixin and *QQ* are among our key services, which allow users to participate in communication and social communities by instant messaging and content sharing, interacting in interest-based communities, and accessing online and offline services, including shopping, local services, public services, entertainment and travel. These services are shaping the lives of consumers as well as helping companies digitalise their businesses by tapping into growing smart-business and smart-living needs, covering more offline consumption scenarios such as retail, healthcare, and mobility. We offer convenient interfaces in *Weixin* and *QQ* that connect users to a wide spectrum of online and offline content and services, including games, video, news and information, music and audio books, online literature and comics, lifestyle services, transportation and eCommerce.

We have been striving to build on the engagement of our user base. On the *Weixin* front, we enabled live streaming to broaden information sharing channels and facilitate one-to-many user interactions. We also launched *Status* for users to share their current emotions and thoughts and connect with like-minded friends. By adding more lively expressive animated emojis in chat, we enable people to express themselves more vividly online. With a focus on younger users, *QQ*'s video and image feed service, *Mini World*, increased its user engagement as we added hashtag feature and initiated trending topics that resonate with Generation Z. We also launched joint promotions and celebrity eSports events for our popular games such as *Honour of Kings* and *Call of Duty Mobile*. In addition, we provided interactive learning experiences such as quiz challenges through partnering with educational institutions.

Our large and highly engaged user base creates a significant network effects. As our users interact with one another through our communication and social products, they build deeper relationships and become familiar with our products and services, thereby helping us retain existing users and attract new ones. Leveraging our massive user base, we have successfully grown our online digital content services into market leaders in various formats, including games, video, news, music and literature.

Market Leadership across Multiple Key Industry Verticals

We have a profound presence in all of our key services, including communication and social services, online games, various digital content services, utility products, FinTech services and cloud services. We believe our leading position is underpinned by our in-depth understanding of the needs of our users and the trends in the market, as well as our strong research and development capability.

- *Communication and Social* — We operate the largest communication and social community in China in terms of the number of DAU and MAU among social communities on both mobile and PC in February 2021, according to iResearch.

- *Online Games* — We are the largest online game service provider globally as measured by revenues in 2020. As at 31 December 2020, we had developed 4 of the top 10 smart phone games by MAU globally, together with our majority owned subsidiaries, according to QuestMobile and App Annie. We rank the top by users in China across PC and smart phone online games. Amongst our leading game titles are *Honour of Kings* and *Peacekeeper Elite*, the No. 1 and No. 2 smart phone game respectively in China in terms of MAU in the last quarter

of 2020, according to iResearch, *PUBG Mobile*, the international (global excluding China) highest ranked smart phone game title by DAU in December 2020, according to App Annie, as well as *League of Legends*, the top grossing PC game in China, according to iResearch.

- *Digital Content Services* — Leveraging our massive user base, we have developed leading digital content services offering a broad range of relevant and high-quality content, including video, music, literature, news and others. Our high-quality, differentiated content library offered by each of these services attract, engage and retain a substantial number of users. Our significant support for intellectual property protection is important to our digital content services and we are the partner of choice for major content producers and owners locally and globally. *Tencent Video* is the leading online video streaming platform in China in terms of mobile DAU and daily time spent in February 2021, according to iResearch. Our online music service is primarily operated by *TME*, which runs the top four music mobile applications in terms of mobile MAU in 2020, according to iResearch, and also provides music-centric live streaming services. *China Literature* is the largest online content library and publisher in China as measured by the scale and quality of writers, readers and literary content offerings. As at 31 December 2020, *China Literature* had 9 million writers and 13.9 million works of literature. In 2020, average MAU on its self-owned service provider products and self-operated channels reached 228.9 million. Our online news service, *Tencent News*, is the largest mobile news service in China in terms of MAU in February 2021, according to iResearch.

- *Utility Products* — We offer leading utility products such as Internet browser *(Mobile QQ Browser)*, which is ranked first in China in terms of MAU amongst mobile web browsers in February 2021 according to iResearch, and mobile security (*Tencent Mobile Assistant*), which also ranked first in China in terms of MAU in February 2021 according to iResearch.

- *FinTech Services* — Our mobile payment service, *Weixin Pay*, is a market leader in China, and annual transaction volume generated from *Weixin Mini Programs* more than doubling year-on-year.

- *Cloud Services — Tencent Cloud* has global infrastructure coverage and is a leader in providing cloud services to online games and live broadcast operators. As at 31 December 2020, *Tencent Cloud* provides solid infrastructure in 27 regions and 60 availability zones. Combining our advanced security, data analytics and artificial intelligence technologies, we have built a comprehensive portfolio of cloud products and services and customised smart industry solutions, accelerating our expansion in different industries. We have also assisted enterprises in digital transformation by leveraging our high-DAU products and proprietary technologies. Benefitting from enhanced sales team and deeper partnership with system integrators, the number of paying customers of *Tencent Cloud* exceeded 1 million in December 2019.

Digital Ecosystem Fulfilling Everyday Needs and Empowering our Partners

We are a leading Internet services company operating a broad range of Internet services, and we are dedicated to building up an integrated and vibrant ecosystem among our apps to add value for our users and fulfil people's everyday needs. We have integrated our newsfeed services, *QQ Kandian*, and live broadcasting services, *NOW*, with *QQ* to better serve the information and entertainment needs of the users. We have also deepened the integration between *Weixin* and *WeCom* (enterprise version of *Weixin*), enabling *WeCom* to connect to 400 million consumers that can be directly reached by enterprises. *Tencent Docs,* through extensive integration with other software, such as *QQ*, expanded the use cases and recorded over 100 million monthly active users in 2020. By driving synergies across our digital content services, we have significantly enhanced the value of our IP portfolio. We have also integrated our advertising platforms, strengthened our own properties as well as mobile advertising network as preferred choices for advertisers. In *Weixin Moments*, we enabled performance-oriented advertisers to link their advertisements to *Weixin Mini Programs*, boosting their sales conversion. Both users and service providers benefit from our integrated apps and the convenience of accessing to these services.

Our open ecosystem is also expanding rapidly through *Weixin Mini Programs*, which offer a convenient interface that connects users to a wide spectrum of online and offline services, including games, entertainment content, news and information, productivity tools, lifestyle services, municipal services and eCommerce. We pioneered and then proliferated *Weixin Mini Programs*, fostering a vibrant ecosystem with a large number of mid-to-long tail Mini Programs, as well as better online and offline integration. By encouraging *Weixin Mini Programs* innovation, we have built up a sizable developer ecosystem with a large and expanding base of external developers and software integrators. *Weixin Mini Programs* exceeded 400 million DAU in 2020. We view *Weixin Mini Programs* as complementary to native mobile applications, which we believe should contribute materially to our user experience, our enterprise relationships, and the development of our payment, advertising and cloud businesses. The commercial transaction on our products is growing rapidly. In 2020, *Weixin Mini Programs* deepened penetration in more use cases, with annual transaction volume more than doubling year-on-year.

Through our mobile payment, we enable users and merchants to settle transactions across our ecosystems. We provide support and mobile payment tools through *Weixin Pay* and *QQ Wallet* to connect merchants and consumers. With growing strategic cooperation with flagship merchants and channel partners, our mobile payment penetration is increasing. This in turn serves as an important channel for FinTech businesses to distribute financial products online, including wealth management and micro-loans.

Our comprehensive ecosystem not only integrates our own services and product but also connect with third-party's services and products. We have an open ecosystem that enables third parties to provide services to enrich and enhance our ecosystem while they benefit from increased traffic and business opportunities. Through strategic partnerships with category leaders, we have built a comprehensive ecosystem for users, offering them a broad range of products and services, in particular eCommerce, O2O services and smart retail. For instance, we have strategic partnerships with leading eCommerce platforms such as *JD.com* and *Pinduoduo*, which also offer their services via *Weixin*. For O2O services, we also have strategic partnerships with *Meituan*, a leading eCommerce platform for services in China, and *Tongcheng-Elong*, a leading online travel platform in China. To develop our smart retail initiatives, we have partnered with *Walmart* and *Yonghui Superstores*, for example, to digitalise offline grocery shopping, offering enhanced data capabilities to traditional stores and more convenient mobile payment and checkout solutions to shoppers.

Resilient Business Model with Diversified Revenue Streams

We continuously develop innovative services to expand and enrich the experience of our users and enhance their loyalty to our online communities. To fulfil our users' online lifestyle needs, we offer a wide range of VAS, such as membership privileges, digital content and online games. Our diverse offering of products and services, combined with our large user base and integrated payment service, diversifies our revenue streams, which facilitates our establishment of a resilient business.

We generate VAS revenues from user subscriptions and item-based sales. 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 *Weixin* and *QQ* 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. In particular, for our online game business, we have diversified our revenue by developing more popular games either in-house or by partnerships with top notch game developers and overseas expansion. In addition to establishing our original IP franchises, we developed external partnerships via investments in best-in-genre studios. Our large and highly engaged user base and diversified revenue streams contribute to our solid revenue growth, even during the economic and pandemic fluctuations.

Through leveraging our comprehensive ecosystem, scale and data insights, we drive integrated and targeted advertising solutions which can generate higher returns for advertisers. We are able to increase advertising inventory on our online properties without intruding user experiences. Utilising leading advertising technology including anonymized data aggregation and data analytics, we have continued to experience robust revenue growth during 2020.

Further, we have been utilising our FinTech and cloud services to diversify our revenue streams in 2020. We expanded the use of our payment services from social payment to commercial transactions, providing our users with a hassle-free experience for completing transactions. As such, our commercial payment transaction volume grew rapidly and diversified client base from large merchants to small to mid-sized offline merchants. Use of our advanced technologies in cloud computing, data analytics, artificial intelligence, security, payment and location-based services, as well as audio and video programme services helps industries to digitalise their business and enhance their operational efficiency, and allows us to successfully enhance our cloud and enterprise-facing services.

By developing new products and services to meet the rapidly evolving needs of Internet users, industries and society, we expect to generate additional revenues from new and existing services from our massive user base and broad-based ecosystem while creating value to users, partners and the society.

Highly Cash Generative Business Model

We have consistently generated healthy cash flows from our operations and maintained positive operating cash flows since 2001, including through economic cycles. A significant majority of our revenues are derived from micro-transactions or subscription revenues generated by our massive user base. We price most of our products and services at an affordable level for the average Internet user, making our earnings and cash flows more resilient to economic cycles. Consequently, our business is generally less affected by global economic slowdowns and domestic macro-tightening measures.

We bill and collect a significant amount of our revenues on a prepaid basis, which minimises our working capital needs and achieves a high cash flow conversion ratio. In addition, our consumer Internet-based business model demonstrates significant operational scalability and requires low capital expenditures. For the year ended 31 December 2020, our net operating cash flow was RMB194,119 million (US$29,750 million), and our free cash flow was RMB123.5 billion (US$18.9 billion).

Strong Liquidity Position and Prudent Balance Sheet Management

We have maintained a strong and stable liquidity position as well as a significant investment portfolio. As at 31 December 2020, our cash and cash equivalents and term deposits and others in total amounted to RMB259,507 million (US$39,771 million). The fair value of our stakes in listed investee companies (including associates, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income) was RMB1,204,931 million (US$184,664 million). In addition, over the recent years, we have diversified our debt funding mix with a broader base of funding sources and lending banks. As at 31 December 2020, 56% of our debt is due between two and five years, and 37% of our debt is due after five years. This balanced debt maturity profile adds to the strength of our balance sheet and capital structure.

Stable Management Team with Proven Execution Track Record

We have a stable and seasoned senior management team with extensive operating experience in the Internet and telecommunications industries as well as strong capabilities in developing and executing innovative business strategies. Besides core founders, we have recruited senior management talent from leading global firms. We also have competitive training and career development plans in place to continuously build our own teams. The collective experience of our management team brings together a

mix of local and international experience, industry knowledge and complementary skill sets which have led us to become a leading Internet services company. We believe our committed and experienced management team will continue to lead us to further success.

OUR STRATEGIES

We aim to connect users, businesses, and industries. Our "Connection" strategy focuses on increasing sharing, communication and overall engagement on our social products, and linking these products to a broader range of content, applications and online and offline services. To further extend our strategy, we enable our partners in different industries to better connect with consumers via our expanding, open and connected ecosystem. We believe our "Connection" strategy enables us to drive the convergence of social, content and technology trends, and to better serve consumers as well as enterprises and industries in the process. In particular, we aim to:

Deepen Engagement and Enhance Stickiness of our Massive User Base

We believe the depth of user engagement of our massive online communities is one of our critical competitive advantages. We will continue to increase user engagement by enhancing user experience and broadening our products and services, creating opportunities for our ecosystem partners. We will continue to introduce high-quality content across our variety of online digital content services, including video, music, literature, news and others, and further integrate these digital content services to enhance the holistic and differentiated social experience for our users. We plan to strengthen connections between users via digital content, online services, and offline services, as well as enhancing connections with enterprises leveraging *Weixin Mini Programs*, *Weixin Pay* and *WeCom*. We will seek to provide lively chat experiences and to facilitate users in sharing content with broader communities. We also plan to enrich interest-based community experiences for young *QQ* users, while delivering a better social commerce experience within the *Weixin* ecosystem for consumers, SMEs and brands. We believe that the broad range of services we offer and the strong integrated social element will facilitate the expansion of our user base and further deepen user engagement in China and the overseas market.

We seek to broaden and enhance our fee-based VAS, and promote user subscriptions and item-based sales to increase paying user conversion rate. In our online games business, we have launched a number of initiatives to improve user engagement, including by releasing popular content updates to existing games and deepening user engagement through eSports competitions, games broadcasting services and other experiences. While we invest in high-quality content on our online digital content services, we seek to improve user engagement through subscription for enhanced membership privileges. Users may upgrade to higher privilege membership status in order to enjoy VAS and access our wide variety of digital media and content. We plan to further enhance the overall competitiveness of our online advertising service. We strive to deliver higher ROI through integrated products and deeper targeting algorithms.

We also plan to further boost usage of our payment-related services by covering more online and offline consumption scenarios and expand our FinTech offerings. We plan to further invest to improve our online payment system to increase mobile payment adoption and assist merchants in digital upgrade through payment solutions.

Reinforce High-Quality and Differentiated Content, while Promoting Intellectual Property Protection

We plan to enhance our ability to create and own content through capturing intellectual property and user generated content in our ecosystem. We will continue to systematically invest in high-quality and in-house content and technology that is relevant to our users to boost stickiness and drive differentiation in our games and online digital content services. We also maintain strong relationships with various content providers, including game developers, writers, music labels and video production studios, which are critical for us to secure access to high-quality copyrighted content for our digital content services. We also plan to leverage our deep understanding of users, as well as industry expertise, to identify attractive content for in-house production or licensing. In addition to digital content developed by professionals, we

plan to further promote creation, curation and distribution of user-generated content to enhance user engagement and stickiness. We will also continue to strengthen our short form video content, driving user traffic and consumption of short form video across *Video Accounts*, news feed services and *Weixin Mini Programs*, furthering user engagement and integration with our social networks. We will continue to take advantage of our product innovation and enhanced technologies, such as artificial intelligence, enriched visual effects, advance video recognition and other smart recommendation technologies, to boost content creation, curation and recommendation. We will also continue to extend our franchise in long form video to short form video.

Piracy poses a significant challenge to the online media industry in China. We intend to continue our efforts to support intellectual property protection by organising campaigns together with government authorities, content owners and other industry participants. To promote the healthy development of the online media market in China, we seek to cooperate with leading Internet companies in China to market our copyrighted content offerings and to diminish the distribution network of pirated materials online. We believe we are the partner of choice for content owners because of our scope of intellectual property protection.

Expand our Open Ecosystem Strategy that Promotes Innovation and Collaboration

We are expanding on our open ecosystem strategy and are seeking to increasingly collaborate and enter into partnerships with third-party developers, industry partners, vertical category leaders and content providers in China and globally to further enrich the content and applications offered on our open ecosystem, thus increasing social sharing and interaction among our users. Our open content products is focused on helping our partners create, distribute and expand their content to our users, and spans across a range of content categories, including games, videos, music and literature. We will continue to encourage users, KOLs and other content providers to create more content, in particular short form video content, on our products and we will help them better distribute such content. We will also continue to expand *Weixin Mini Programs* to connect users to online and offline services. Our open ecosystem enables third-party SaaS providers to serve our cloud enterprise clients as we help to develop the Industrial Internet.

By offering a large number of quality third-party and in-house applications, we endeavour to promote innovation within our products, which we expect will ultimately enhance the value of our products as a whole. We support innovation in the industry by opening certain of our technological capabilities, including artificial intelligence technologies to entrepreneurs. We run incubator spaces in China to facilitate the success of entrepreneurs.

We believe our open ecosystem will incentivise content creation to increase user engagement as well as broaden content offerings to our users to enhance user experience and stickiness.

Invest in Leading Technologies including Artificial Intelligence and Cloud to Create Value

We will continue to invest in leading technologies, including artificial intelligence and cloud, which can enhance experience for our users, personalise recommendations within our digital content services, optimise advertising targeting and effectiveness, enrich social interactions through features such as animated filters, as well as empower our ecosystem partners. Our existing strength in computing power, data analytic and security technologies, as well as use cases coupled with our proactive build-up of technology talent, offers us a strategic advantage in harnessing the value creation opportunities from leading technologies.

For instance, we offer a range of digital tools including user insight, campaign management, and digital asset management. Supported by our artificial intelligence technology, anonymised data aggregation and data analytics, our technology enables us to deliver higher ROI for advertisers. Through applying artificial intelligence technology throughout the process of advertisement placement, including understanding users' preferences, contextual and advertisement content, ranking the bidding price and optimising display formats, we may be able to increase the return on investments for advertisers on our products. Similarly,

through applying artificial intelligence technology to our digital content services, we are able to make more relevant and customised recommendations based on their interest and social graphs so that users can access their favourite content more efficiently and have an improved user experience.

We will also increase investment in cloud-related services to provide differentiated and tailor-made solutions by leveraging our comprehensive and advanced technologies in security, payment, data analytics, among others. We plan to continue to develop our cloud resources and technology to create value for industries. For example, we have developed COVID-19 pandemic-related programmes and supported pandemic-related medical research in 2020. We have created all-in-one entry point, *Tencent Health*, for online healthcare services, which has provided access to real time pandemic data and information and online consultation to over 400 million *Weixin* users. Our AI-powered tools help users to self-diagnose and help doctors to increase efficiency in diagnosing COVID-19 through *Tencent Health*. Our *Health Code* is the most-used ePass for verifying health and travel status during COVID-19 pandemic in China. It has facilitated domestic travel during the COVID-19 period and reduced transmission risks for over 1 billion users.

Leverage our Comprehensive Technological Capabilities to Embrace Industrial Internet

Leveraging our highly-engaged communication and social services, and innovative and widely accepted enterprise tools, we will further our expansion from Consumer Internet to Industrial Internet, connecting industries with consumers and business partners, and helping industries expand through digital channels.

We believe we are uniquely positioned to help businesses embrace the Industrial Internet. Firstly, we have a robust system that enables us to provide cloud-based services to various businesses. Secondly, through our advanced technologies in artificial intelligence, data analytics, security, payment and location-based services, we can help industries improve operational efficiency. Thirdly, our various consumer to business tools, such as *WeCom, Weixin Mini Programs* and *Weixin Pay*, allow enterprises to reach our massive user base across our social and other high traffic products. Finally, we have customised smart industry solutions that help solve different industry needs and enhance efficiency, such as our smart retail initiative and healthcare solutions.

We plan to assist with digitalisation and transformation of more industries, such as healthcare and education. To promote smart healthcare, we use our artificial intelligence capabilities to help patients connect with medical care providers and the right experts, and help doctors in screening and diagnoses. Healthcare related *Weixin Mini Programs* allow patients to register for appointments with hospitals or conduct video appointments with specialists online. *Tencent Medipedia* provides online medical content library with over 120,000 medical terms. It provides reliable medical information resources, developed pandemic-related content and attracted more than 7 billion page views and video views in 2020. We have also upgraded our capabilities and products to provide access to healthcare services, businesses and educational establishments with remote workplace and collaborative tools. In particular, we deepened the integration of *WeCom* with *Weixin* and connected to 400 million consumers that can be directly reached by enterprises. We added AI-powered features such as optical character recognition and speech recognition input in *Tencent Docs* and strengthen integration with other software to expand use cases.

Pursue Partnerships to Enhance Our Business Portfolio and Grow International Presence

We have entered into partnerships with content providers and vertical category leaders to enhance our business portfolio. Our partnerships with game developers, film studios and record labels, amongst others, help us secure valuable intellectual properties, applications and media content to build content offerings on our products, differentiate our services from the competition and support business growth. We plan to establish cooperation opportunities with vertical category leaders in areas including eCommerce, digital content, local services, transportation, retail, healthcare and finance to expand services on our products. We are also expanding our business overseas. For example, we will extend our presence in domestic game industry to overseas markets, reinforce our international efforts, and provide high-quality new games globally. Online game business has spearheaded our overseas expansion with the successes of *PUBG*

Mobile and *Call of Duty: Mobile* in international markets and long-term relationships with leading global game companies. We have also looked at opportunities overseas with vertical category leaders to enter into other overseas markets and to reinforce our long-term relationships with global partners. With our expertise in operating large-scale games and events and our global publishing and operation experience, we will continue to foster user communities for users and players. We have leveraged our technical and operational know-how to deliver quality Internet and mobile applications and services to users in international markets. We aim to strengthen our position as the hub for fulfilling people's online everyday needs.

Pursue Continuous Innovation to Enhance Our Services with a Focus on User Experience

Strategic investment in innovation is the main driver of our business performance in the past and for the future. To stay at the forefront of the internet, and to achieve long-term growth and success, we invest heavily in research and development. We invest in incremental innovation to enrich existing product experiences and we also invest in transformative innovation into create new products to serve new user needs.

In communication and social, for example, we started with mobile chat and added social networking, *Weixin Official Accounts*, payments, *Weixin Mini Programs* over the years. Currently we are incubating video accounts as a new innovation. We launched *Video Accounts* as a separate ID-based, short form content creation product, which enables video uploads and sharing as well as live streaming to the public audience. Through aggregating content providers' digital assets, *Video Accounts* help reinforce their branding and facilitate user engagement and transactions. In addition, the unique strength of *Video Accounts* lies in linking public domain to private domain, which provides an unparalleled channel for businesses to acquire and manage their own customers.

We keep innovating in game-tech by developing games internally and through partnerships. We are early adopter of next-generation rendering and high-dynamic-range imaging technologies in China, and the first AI promoter to enable users to play full MOBA games with deep reinforcement learning. We are also the pioneer in cloud-based mobile and PC games which enables users to play massive multiplayer games on smart TV. We have innovated in character abilities, environmental design and interactions, anti-cheating technologies and diversifying gameplays including PvP, PvE and PvX to cater for multi-tier players.

In the area of SaaS products, we identify this emerging opportunity in China when we announced strategic upgrade to the industrial internet in 2018. In 2020, we achieved breakout growth in productivity and communication software in SaaS products, especially for *WeCom*, *Tencent Meeting, and VooV Meeting*, and *Tencent Docs*. *Tencent Meeting* has become the largest standalone app for cloud conferencing in China with total users exceeding 100 million in the fourth quarter of 2020. We launched enterprise version of *Tencent Meeting*, and developed new solutions, rooms and connectors in order to expand *Tencent Meeting* compatibility with clients' existing devices, saving costs for them and facilitating adoption for us. Our *Tencent Docs* is the first mover in providing online solution to generate tables based on collaborative data entry. We have also added AI-powered features such as optical character recognition and speech recognition input. We will continue to invest in cloud computing infrastructure and technology, leverage our communication and productivity strengths while working with partners to upgrade our PaaS and SaaS solutions.

We also utilised our AI, *Weixin Mini Programs* and communication tools to solve industry pain point. We developed all-in-one entry point for online healthcare services via *Tencent Health* and built up e-Card solutions to digitalise medical-related offline services. We also included medical insurance e-certificate and electronic health card within *Tencent Health*. Users can bundle medical insurance e-certificate with social basic medical insurance account to conduct mobile payment in more than 10,000 hospitals, 200,000 pharmacies across over 200 cities.

Complementary to our investment in innovation to drive our core businesses, investment in ecosystem is also our strategic focus. Through investment, we support innovation for our partners and investees, which ultimately together better serves users and enterprises. We seek to invest in high-quality management teams and best-in-class companies to prepare for emerging opportunities arising from technological advancement in Consumer Internet and Industrial Internet within our core businesses. Through investments, we not only cultivate the growth of start-ups, but also create synergies that are value-added to users. An additional benefit of our investment strategy is that we can then focus our internal resources on driving innovation within our core businesses. These two-pronged strategies have been pivotal in driving the sustainable development for us and the industry as a whole.

BUSINESS SEGMENTS

VAS

Our VAS business mainly consists of social networks services, online games and digital content services, including video, news, music, literature and others. Our VAS revenues mainly comprise of subscription revenues and item-based sales from our online games, VIP membership services and item-based sales on our products. While most of the basic features of our VAS are free-of-charge, users can choose to pay for virtual items, special privileges and premium content and features. Our VAS revenues were RMB176,646 million, RMB199,991 million and RMB264,212 million (US$40,492 million) for the years ended 31 December 2018, 2019 and 2020, respectively and accounted for 56%, 53% and 55% of our total revenues for the same years, respectively. Our total VAS subscriptions grew 22% to 219 million in 2020 as compared to 2019.

Social Networks

We are a leading provider of social networks in China, with clear leadership in communication and social services, including *Weixin* and *QQ*. We 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. Our social networks include social networking websites/applications, premium membership services and other interactive products. The basic features of our community VAS are generally provided for free. We primarily offer item-based sales and subscriptions for premium services and products. We intend to improve user activeness and interaction through enhancements in content, functionalities, diversity of third-party applications and online and offline member privileges.

- ***Weixin***

  Throughout the past decade, *Weixin* has evolved from an IM app to a service meeting the digital needs of over 1.2 billion users. *Weixin* has become a hub of mobile connectivity in which we connect our users with a wide variety of services including but not limited to shopping, local services, entertainment and travel. On the international front, we offer *WeChat*, a mobile communication and social service. *Weixin Mini Programs* connect online and offline services with users on *Weixin*. Service providers benefit from the increased traffic and usage arising from integration in the *Weixin Mini Programs*. Our users also benefit from the convenience of accessing to these services. In 2020, *Weixin Mini Programs* deepened penetration in more use cases, with annual transaction volume more than doubled year-on-year in 2020. *Weixin Official Accounts* allow individuals, media and businesses to share original content and engage with readers/customers, which strengths brand awareness and content management. Each day, more than 120 million users post in *Weixin Moments*, 360 million users read *Weixin Official Accounts* articles and 400 million users access *Weixin Mini Programs*. We enabled live streaming to broaden information sharing channels and facilitate one-to-many user interactions. We also launched *Status* for users to share current emotions and thoughts and connect with like-minded friends. By adding expressive animated emojis in chat, we strive to create more lively expressions.

We also launched *Video Accounts* as a separate ID-based, short form content creation product to enable video uploads and sharing to public audience of informative and educational content, as well as live streaming, offered to users through social and algorithmic recommendations. We aggregate content providers' digital assets within *Weixin*, supported by *Weixin Official Accounts* and *Weixin Mini Programs* to reinforce branding and facilitate user engagement and transactions. We also link public and private domains to provide unique channel for businesses to acquire and manage customers efficiently.

- ***QQ***

  QQ is one of our communication and social services that allows users to send and receive instant messages and interact in the *QQ* community. It allows users to meet new friends and establish new social circles based on location and interests. In addition, through the *QQ* client, our users can have access to a variety of our services such as *QQ Mail*, *Qzone*, *WeGame*, *QQ Music* and *QQ Reading*. We have also integrated our newsfeed services, *QQ Kandian*, and live broadcasting services, *NOW*, with *QQ* to better serve the information and entertainment needs of the users. In particular, *Qzone* is our social product that permits users to write blogs, keep diaries, upload photos, listen to music and engage in other premium services which can be shared among designated peer groups organised and accepted by the users. Users may purchase items or subscriptions that allow access to all services without additional costs. *QQ Membership* has developed into a premium membership brand through which we provide a range of privileges associated with IM, online games, online and offline lifestyle services and eCommerce. We also offer *QQ Super VIP* subscription services which consist of privileges for both PC and mobile devices to cater to the increasing needs of mobile Internet usage. We strive to enhance interactive experience within vertical communities. In particular, *Mini Word* daily user engagement increased as a result of us introducing Hashtag feature and initiated topics that resonate with Generation Z. *QQ* caters to evolving needs of young users by creating game communities and learning communities. It allows participants to interact in various interest groups and *Weixin Mini Programs*, as well as discuss game-related topics and team up among participants. It also provides virtual rooms for students to study together, enabling students to encourage their peers and reduce distractions. We launched joint promotions and celebrity eSports events with popular games, encouraging user interactions in interest groups and *Weixin Mini Programs*. We also partnered with educational institutions to offer quiz challenges and Q&A services, providing interactive learning experience.

- ***Video***

  We provide video content as well as video creation and sharing products. Our premium video content includes drama series, movies, variety shows, animation and documentaries, which are self-commissioned or licenced from domestic and overseas content providers. *Tencent Video* operates a freemium model and content sales model, and offers subscription plans which provide users with access to premium content and a range of added features. Video subscriptions increased 16% to 123 million in 2020 as compared to 2019, driven by self-commissioned animated series, deepened cooperation with channel partners and expanded over-the-top user base.

- ***Music***

  Through *TME*, we offer the largest online music entertainment services in China with over 622 million mobile MAU in online music and 223 million MAU in social entertainment in the last quarter of 2020. *TME* operates the top four music mobile applications, i.e. *QQ Music*, *Kugou Music*, *WeSing* and *Kuwo,* in terms of mobile MAU in 2020, according to iResearch, and also provides music-centric live streaming services. We license music content from several domestic and overseas music labels, including *Sony Music Group*, *Universal Music Group* and *Warner Music Group*. We also support independent artists to produce quality music content and

enable them to reach an extensive user base. We have created a wide variety of use cases for our users, including listening to streaming music, watching music videos, participating in fan-based activities and games, as well as singing along with the music. *TME* operates a freemium model and content sales model, and also offers subscription plans which provide users with access to premium content and a range of added features. In addition, *TME* also enhance user activity and engagement through sale of virtual items that users purchase and share as gifts to their favourite singers and performers on the products, including on our online karaoke app. Music subscriptions grew 40% to 56 million in 2020 as compared to 2019 due to improved user retention and paywall strategy.

- ***Literature***

  We offer a wide range of literary content with a total of 13.9 million works of literature, including original literary works featuring 9 million writers on *China Literature*'s product, as at 31 December 2020. The online literature product primarily focuses on Chinese language, original literary content, which is largely fictional and serialised in nature. We create and promote IPs mainly through *QQ Reading* and *Qidian*, as well as *New Classics Media*, a renowned film and TV drama series production house in China. We distribute and develop literature content through a variery of self-owned/operated and third-party channels so as to enhance IP value. Other works on our online *literature* product include high-quality content we source from other online literature products, as well as e-books that we have converted from offline physical books in collaboration with certain third-party publishers. We operate a freemium model where we typically offer the beginning chapters of a literary work for free and then charge certain fees for the rest of the work. We offer monthly subscription packages which allow readers unlimited access to a specific sub-set of our content offerings and provides them a discount on purchase of other premium content. In addition, we also launched our free reading app to expand our reach in a wider range of markets and user groups. Through deeper collaboration with our online literature product, we have amassed significant experience operating a user generated content library and developing IP that can be extended across multiple media formats.

Our social networks revenues were RMB72,654 million, RMB85,281 million and RMB108,111 million (US$16,569 million) for the years ended 31 December 2018, 2019 and 2020, respectively. Social networks revenues accounted for 23%, 23% and 23% of our total revenues for the same years, respectively.

Online Games

We are the largest online game service provider globally as measured by revenues in 2020. We currently allow our registered users to play a majority of our games for free. Our online games revenues are derived primarily from sales of virtual items, such as Avatars and accessories that enhance game play experience, as well as subscription fees for membership services and season passes, which provide special privileges, premium game features and discounts on in-game items. These items and services allow players to utilise more functions and personalise the appearance of a game character.

The games that we operate are either developed in-house or licenced from third parties. We have strong in-house development capabilities, demonstrated by our highly acclaimed in-house games in a variety of genres such as MOBA (*Honour of Kings, League of Legends*), tactical tournament (*PUBG Mobile* and *Peacekeeper Elite*), racing (*QQ Speed Mobile*) and role-playing (*Moonlight Blade*). We are also the partner of choice for game publishers due to our leading distribution capabilities in China and globally. We work with other major game developers and operators from China and overseas, and customised and localised their games to suit the culture and needs of the Chinese market.

- ***China***.

  Honour of Kings was the top-grossing mobile game worldwide for the second consecutive year and continued as the most popular mobile game in China by MAU. In January 2021, we released the biggest-ever update for *Honour of Kings* with a new hero, skins and user interface. We upgraded our rendering technology, which enhanced visual effects with minimal performance overhead, enabling more compelling content and game experience in future upgrades. The launch of *Call of Duty Mobile* in China drew hardcore players with a fast-paced and competitive first-person-shooting experience, complementing *Peacekeeper Elite* and *CrossFire Mobile* within the shooter genre. The release of *Moonlight Blade Mobile* demonstrated our capabilities in the role-playing genre. Aurora Studio extended this IP from PC to mobile while retaining its distinctive oriental style and semi-sandbox open world design. *Moonlight Blade Mobile* ranked as the top grossing MMORPG on iOS in China during the fourth quarter of 2020. Our partnership with Nintendo extended our home entertainment offerings to consoles. By the end of 2020, we have distributed over 1 million Switch consoles and published a dozen popular Switch titles in China. To maintain a healthy gameplay environment for teenagers in China, we made ongoing upgrades to the Healthy Gameplay System, which aims to help parents manage younger users' in-game play time and spending. During the fourth quarter of 2020, minors aged under 18 accounted for 6.0% of our China online game gross receipts. Among which, minors aged under 16 accounted for 3.2% of our China online game gross receipts.

- ***International***.

  League of Legends attracted over 45 million peak concurrent viewers for its *2020 World Championship Finals*, setting a record viewership for a games eSports event. The rollout of *League of Legends'* mobile version, Wild Rift, further expanded its franchise user base. *PUBG Mobile* ranked as the most popular smartphone game in international markets by MAU for the second consecutive year, according to App Annie. The *PUBG Mobile Global Championship* became the most viewed eSports tournament among mobile games. We innovated in character abilities, environmental design and interactions, anti-cheating technologies to make Valorant the most successful new PC game internationally in 2020. To capture worldwide attention, we collaborate with renowned console game and anime IPs, including *Call of Duty*, *Saint Seiya* and *Pokemon*. We have also invested in PC and console studios, including Digital Extremes, Fatshark and Klei Entertainment, which are leaders in emerging genres.

As at 31 December 2020, we had developed 4 of the top 10 smart phone games by MAU globally, together with our majority owned subsidiaries, according to QuestMobile and App Annie. Our online games revenues were RMB103,992 million, RMB114,710 million and RMB156,101 million (US$23,923 million) for the year ended 31 December 2018, 2019 and 2020, respectively. Online games revenues accounted for 33%, 30% and 32% of our total revenues for the same years, respectively.

Online Advertising

We offer a broad range of advertising formats and solutions, including social and others advertising and media advertising. In advertising, we seek to enhance our user targeting capability to increase ROIs (return on investments) for advertisers. We experienced increased demand from education, eCommerce and Fast Moving Consumer Goods advertisers. Our auto-related advertising revenue benefitted from car sales recovery and the consolidation of Bitauto.

Social and others advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Mini Programs*, *Weixin Official Accounts* and *QQ*, other properties such as live streaming and eSports event as well as mobile advertising network. In terms of our social and others advertising business, *Weixin Moments* revenue maintained solid growth, as performance-oriented advertisers linked their ads to *Weixin Mini Programs* to boost sales conversion. Supported by our advertising technologies including AI,

anonymized data aggregation and data analytics, we have increased our market presence in advertising networks, where we have experienced robust revenue growth and improved operating margin. We developed integrated digital marketing solutions, which provides unified access to full range of our and third-party advertising inventories. Our in-game advertising revenue on our mobile advertising network more than doubled in 2020 as compared to 2019, especially benefitted from third-party game companies as well as internet services.

Media advertising relates to advertising on our video, news, music and other online media properties.

Our online advertising revenues were RMB58,079 million, RMB68,377 million and RMB82,271 million (US$12,609 million) for the years ended 31 December 2018, 2019 and 2020, respectively, and accounted for 19%, 18% and 17% of our total revenues for the same years, respectively.

FinTech and Business Services

We offer FinTech and cloud and other business services, which primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing services. 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 and VooV Meeting*, *WeCom, Tencent Docs* and third-party SaaS products).

FinTech

Our FinTech services primarily consist of payment, wealth management, lending and other FinTech services. Since launch of such service, we have been working closely with regulators and collaborate with industry partners to deliver compliant and inclusive FinTech products, while prioritizing risk management over scale. We provide support and mobile payment solutions to connect merchants and consumers through *Weixin Pay* and *QQ Wallet*, which are consumer-facing mobile payment tools with expanding use cases, including for social, O2O services and FinTech services. Our payment activity has been expanding from social to commercial payment, and from online to offline payment transactions. Our social payment functions such as red packets and bill sharing simplify peer-to-peer transfers, whereas our commercial payment facilitate fast and seamless experiences for both eCommerce transactions and an increasing range of offline consumption scenarios, including ride hailing, movies and event ticketing, restaurant dining and delivery, shopping at supermarkets and convenience stores, and others. As the use of our payment services expand from social payment to commercial transactions, we close the loop on the provision of services, providing our users with a frictionless experience for completing transactions. As such, our commercial payment transaction volume is growing rapidly and diversifying from large merchants to small to mid-sized offline merchants. We collect take-rate from merchants on commercial transactions and also cash withdrawal fee and credit card repayment charge collected from users. Our *Weixin Pay* also provide a channel for financial institutions to distribute FinTech products. Our robust payment system provides high-level payment security, service reliability and transaction speed. Our payment transaction volume increased healthily year-on-year, driven by more daily active consumers and higher payment frequency in multiple verticals, such as retail, public services and groceries. Our commercial take rates remained stable. For wealth management service, aggregated customer assets grew robustly year-on-year. Our affiliate WeBank, a licensed-bank, rapidly grew the loan balances of its online micro-loan product, *WeiLiDai*, while maintaining a healthy credit risk performance. Our insurance service provider, *WeSure*, works with well-known insurance companies to provide users with high-quality insurance services.

Cloud and Other Business Services

Our cloud and other business services primarily consist of cloud services and other enterprise-facing activities such as our smart retail initiatives. In business services, we focus on developing customised industry solutions, enabling our enterprise partners to better connect with our users, and assisting a range of industries in digital upgrades. *Tencent Cloud* has global infrastructure coverage and is a leader in

providing cloud services to online games and live broadcast sectors. Combining our advanced security, data analytics and artificial intelligence technologies, we have built an expanding portfolio of cloud products and customised industry solutions, accelerating our expansion in different industries.

For our cloud services, we charged usage-based billings or services fees on IaaS, PaaS and SaaS and technology solutions from enterprise customers. The expanded customer base in key verticals and robust demand for PaaS contributed to the revenue growth in the fourth quarter of 2020. In addition, we provided smart industry solutions in education, financial, healthcare, eCommerce and tourism sectors with our industry partners, such as Smart Education, Smart Healthcare and smart retail.

COVID-19 pandemic outbreak in 2020 highlights the utility of remote working and remote health care services, and we are seeking to play our part in helping people cope with the new challenge. *Tencent Meeting* has become the largest standalone app for cloud conferencing in China with total users exceeding 100 million in the fourth quarter of 2020. The enterprise version of *Tencent Meeting* has gained access to key accounts in energy, healthcare and education industries. We also offered new conference room solutions via *Tencent Meeting Rooms* and *Connector*, which are compatible with our users' existing equipment and facilitate high-quality real-time communication. We deepened the integration between *Weixin* and *WeCom* to facilitate customer management and sales conversion, and millions of enterprises used *WeCom* to resume work in the wake of the coronavirus outbreak. We introduced multiple cooperation models to grow partnerships with OA application vendors and leverage synergies with *Tencent Cloud* to increase market share in K-12 education. For *Tencent Docs*, we strengthened integration with other software to expand its use cases, which resulted in a total MAU surpassing 100 million.

Over 400 million *Weixin* users have utilised *Tencent Health* as an important access to real-time data, online consultation and artificial intelligence-powered self-diagnosis services. We provided our artificial intelligence imaging capabilities and developed e-Card solutions to assist diagnosis of coronavirus disease. We bundled Medical Insurance e-certificate with users' social basic medical insurance accounts to conduct mobile payment. We have also developed Electronic Health Card to serve as a health information management tool for users and their families. In addition, we offered reliable and professional healthcare information through *Tencent Medipedia,* and distributed pandemic-related content via multiple high traffic products, such as *Weixin* and *Tencent News*, and attracted over 7 billion page views and video views in 2020. We optimised content formats from text, picture to short video and live streaming, and optimised content review mechanism by combining AI technology and medical experts' efforts.

Revenue from FinTech and Business Services were RMB73,138 million, RMB101,355 million and RMB128,086 million (US$19,630 million) for the years ended 31 December 2018, 2019 and 2020, respectively, and accounted for 23%, 27% and 27% of our total revenues for the same years, respectively. Gross margins improved as we optimised supply chains and expanded business scale.

Others

Our Other services include production of and distribution of, films and television programs for third parties, copyright licensing, merchandise sales and various other activities. Our revenues from "Others" segment were RMB4,831 million, RMB7,566 million and RMB7,495 million (US$1,149 million) for the years ended 31 December 2018, 2019 and 2020, respectively, and accounted for 2%, 2% and 1% of our total revenues for the same years, respectively. "FinTech and Business Services" segment 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.

CORPORATE OPERATIONS

Environmental, Social and Governance ("ESG") Initiatives

Sustainability is vital to the development of our strategy and operations, and we strive to integrate social responsibility into our products and services.

Environmental

We recently announced our commitment in moving towards carbon neutrality to help tackle climate change, and are exploring renewable energy solutions for the operation of our office buildings and data centres. In addition, we leverage self-developed T-block technology to optimise power usage efficiency in data centres, and utilise Artificial Intelligence, big data analytics and cloud computing to facilitate desert reclamation. We also leverage our expertise in AI, big data, and cloud computing with the mission of helping manage sustainability problems for the planet, such as smart agriculture solutions. TiMi Studios, the developer of *Honour of Kings*, has recently joined the Playing for the Planet Alliance, a collective effort initiated by the United Nations Environment Programme to decarbonise and integrate environmental activations into games.

Social

User privacy and data security are top priorities at Tencent. We focus on user experience and adhere to a "privacy by design" approach. We deploy advanced technologies such as data encryption, data masking, de-identification and quantum cryptography, to safeguard users' data security.

We have upgraded our Balanced Online Entertainment System in China to help parents prevent excessive use of online services by minors. In particular, we released teenager mode in multiple products to advocate digital well-being. To maintain a healthy gameplay environment for teenagers in China, we made ongoing upgrades to the Healthy Gameplay System, which aims to help parents manage younger users' in-game play time and spending. We have built Tencent Charity Platform into an efficient fundraising platform, while also providing technology for the digitalisation of charitable organisations to engage with supporters. In 2020, our flagship charity event, 99 Giving Day, engaged over 18 million users and 10,000 charities, raising over RMB3 billion within three days. Through *Weixin* and *QQ*, we bridge the digital divide for the elderly and the disadvantaged. We support rural vitalisation through our WeCounty initiative, connecting over 16,000 villages and 2.5 million villagers.

Our *Health Code* has facilitated domestic travel during the COVID-19 period and reduced transmission risks for over 1 billion users. We also assisted enterprises to maintain business continuity and assisted economic recovery through *Weixin Pay*, *Weixin Mini Programs* and other digital solutions.

In response to COVID-19, we established Global Anti-Pandemic Fund, which is a US$100 million fund to support international efforts against COVID-19, initially focused on the sourcing and donation of medical supplies. We have also established China Anti-Pandemic Fund, a RMB1.5 billion fund dedicated to procuring and donating medical supplies, offering relief and sponsoring pandemic-related R&D programs.

Governance

We have established stringent risk management and internal controls to maintain the highest standards in corporate governance. Anti-fraud and whistleblowing policies are also in place in order to identify and prevent fraud and corruption. In the meantime, we support the growth of third-party partners, promote fair competition and industry collaboration. We believe diversity is key to effective governance and are dedicated to enhancing board diversity in gender, background and expertise.

Research and Development

We believe that our ability to develop technology and Internet, mobile and online entertainment applications has been a key factor in the success of our business. To maintain and enhance our leadership position, we will need to continue to invest in research and development in order to enhance our services and products. Research and development expenses constituted 7%, 8% and 8% of our total revenues for the years ended 31 December 2018, 2019 and 2020, respectively. Our self-developed technologies include communication technologies, social and other interactive technologies. We also licence some services and

technologies from third parties such as database technology and audio/video codec technology. We have established an in-house Research Institute and an integrated Customer Research and User Experience Design Center. We will continue to develop our core technologies in-house and when required, licence technology from third parties.

Strategic Relationships

We are focused on enriching our VAS and expanding the networks over which we deliver these services. We maintain strategic relationships with telecommunications operators in China, major domestic and foreign application store operators (including Apple iOS application store and Android application stores), device vendors and device manufacturers and ecosystem partners. In addition, while we develop a significant number of our services and products through in-house development teams, we also licence and collaborate with an increasing number of third-party content providers, application developers, merchants and manufacturers.

Relationships with Ecosystem Partners

We have established strategic relationships with several ecosystems partners in order to provide superior services to mobile and Internet users in China. For instance, our strategic partnership with *JD.com* allows us to leverage *JD.com*'s eCommerce services to offer superior user experiences. Our strengthened cooperation with *Meituan* and *Didi Chuxing* increased mobile payment business for commercial transactions rapidly. Our partnership with *Tongcheng-eLong* benefitted our user base by broadening our service offering to travel services.

Relationships with Content Providers and Application Developers

Our relationships with content providers and application developers are important to us as we strive to expand our VAS. The goal of our content and application partnerships is to provide our users with a broad offering of attractive content and applications. We currently have strategic relationships with a number of content providers including mobile and portal content providers, news and printed media, video and music content providers, writers, video production studios, and we expect to continue to grow these relationships going forward.

Relationships with Telecommunications Operators

We have strategic relationships with the telecommunications operators in China through which we use their networks to deliver our services and products. Our large user base and innovative applications increase demand for traffic on telecommunications networks. We currently maintain strategic relationships with *China Mobile*, *China Unicom* and *China Telecom*.

Relationships with Device Manufacturers

We currently work with a number of domestic and international major device manufacturers and we believe that our cooperation with them is mutually important and beneficial. Device manufacturers assist in the distribution of our services by making our client software and applications readily available in the devices they manufacture. At the same time, our applications create market demand for more sophisticated devices capable of supporting and interfacing with our applications.

Relationships with Application Store Operators

We have established strategic relationships with several application store operators (including Apple iOS application store and Android application stores) through which we use their networks to deliver our products. For instance, our strategic relationship with *Apple Inc.* allows us to place our apps onto its *App Store* under a revenue sharing arrangement. Any user who directly subscribes to our apps using their iOS device will pay *Apple Inc.*, which will then settle payment with us through payment arrangements.

Intellectual Property

We regard our patents, copyrights, trademarks and other intellectual property as critical to our success. We rely primarily on a combination of patent, trademark, copyright, trade secret and other intellectual property-related laws and contractual restrictions to establish and protect our intellectual property rights. We require substantially all of our employees enter into agreements requiring them to keep confidential all proprietary and other confidential information relating to our customers, methods, technology, business practices and trade secrets and such obligations shall survive the expiration or earlier termination of their employment with us. Our employees are required to acknowledge and recognise that all inventions, trade secrets, works of authorship, developments and other processes, whether or not patentable or copyrightable, made by them during their employment are our property. We have independently developed key software used in our business and have registered a number of these software copyrights. We currently have over 17,000 issued patents that cover our self-developed key technologies and infrastructure.

Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our authorisation. Furthermore, the validity, enforceability and scope of protection of intellectual property rights in the Internet and telecommunications-related industries are uncertain and still evolving. Infringement and misappropriation of our intellectual property could materially harm our business. We have been and may in the future be involved as an applicant or opposing party in several administrative actions involving trademark disputes. See "*Risk Factors — Risks relating to Our Business — We may be subject to intellectual property claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business*".

We have registered the domain names, including "*qq*.com" and "tencent.com", with Internet Corporation for Assigned Names and Numbers and the domain names "tencent.com.cn" and "tencent.cn" with CNNIC, a domain name registration organisation in China. In addition, we have registered over 4,000 domain names with various domain name registration services as at 31 December 2020.

Our "QQ (stylised)" mark, the "penguin" device, the "*Weixin*" and "*WeChat*" marks and many associated marks have been registered as trademarks in various classes in China, Hong Kong and other jurisdictions. We have also registered our "QQ (stylised)" mark and the "penguin" device in various classes in jurisdictions including the United States, Japan, Hong Kong, Singapore, India, Malaysia, and the European Union. In addition, a series of "*QQ*" marks, the "penguin" device and the "*Weixin*" and "*WeChat*" marks have also been registered as copyrighted artworks in China.

We licence our trademarks from time to time to increase our brand recognition and further penetrate the consumer market in China. We have licenced the *QQ* brand to manufacturers of various products, including electronic and consumer goods products. Our trademarks have also appeared along with trademarks of other corporate entities for joint marketing, co-branding and merchandising initiatives.

Sales and Marketing

We believe that our large *Weixin*, and *QQ* user base in themselves, are key drivers of our business growth, as many Internet users in China seek to join an established and vibrant online community. We market our VAS primarily through our products and portals. In our online community, "word of mouth" is important for the adoption of VAS as positive feedback from users can be quickly communicated by various channels, including *QQ*, *Qzone* and *Weixin*. We market our advertising services through a dedicated sales force across the country.

Our sales and marketing efforts are supported by a network of marketing and sales teams throughout China. We conduct a variety of online and offline marketing and promotion activities, including joint marketing activities with telecommunications operators and device manufacturers, in-game promotional events, marketing, and advertisements on our portals. Going forward, we will further enhance our position

as a mainstream digital content service provider in China. For sales and marketing outside the Chinese market such as the promotional campaigns for *WeChat*, we will also utilise both online and offline marketing and promotional activities to enhance our brand awareness.

Competition

The Internet industry in China is rapidly evolving and competition is expected to further intensify. We face significant competition in almost every aspect of our business, particularly from companies that provide communication, social networking, online games, social media, FinTech and cloud services and/or other products and services. In recent years, more foreign investors have begun to explore the opportunities arising from the emerging Chinese Internet industry. Many of these Internet start-ups and companies are well funded by private equity or venture capital funds, which have resulted in an increasingly competitive industry landscape. Our competitors for providing VAS in China are mainly local Internet companies who offer various online games, social and other online entertainment and communication services, as well as competitors along the value chain of the telecommunications industry including mobile device manufacturers, chip manufacturers, telecommunications operators and mobile content/service providers. We compete for online advertising with other companies that sell online advertising services in China through display and search advertising as well as advertising networks. In addition, we indirectly compete for advertising budgets with traditional advertising media in China, such as terrestrial or satellite broadcasting media like television and radio stations, printed media such as newspapers and magazines, and major out-of-home media. As we expand into FinTech, cloud and other business services, we also face competition with other technology or FinTech service providers.

We believe that as we continue to expand our business scope, we will encounter new competitors and competitive environments that might evolve over time. In addition, we may face increased competition from international competitors that may establish joint venture companies with local companies to provide services based on the foreign investors' technology and experience developed in overseas markets.

We believe the principal competitive factors in our business include size of user base, community cohesiveness and interactivity, brand recognition, understanding of user needs, technology, product development capabilities and pricing. We aim to compete by continuing to develop, acquire and licence technologies, services and products that bring quality user experiences to our target users.

Network Infrastructure

Our network infrastructure is built to satisfy the requirements of our operations and to support the growth of our business. Our servers and routers are located across China and our systems are designed for scalability and reliability to support growth in our user base. We believe we have developed and are operating one of the largest and most sophisticated cloud computing infrastructures in China and abroad.

We believe that our current network facilities and broadband capacity provide us with sufficient capacity to carry out our current operations. We believe that we can expand our network facilities and broadband capacity as needed to accommodate our growth.

Customer Service and Technology Support

We place a high priority on providing our users with a consistently high-quality of service and support. We have dedicated customer service teams to handle general product and service inquiries, billing questions, online security and technical support issues 24 hours a day, 7 days a week. Customers can access our customer service teams through various channels such as 24-hour customer service hotline, website and online self-help service centre.

Suppliers and Customers

For the year ended 31 December 2020, none of our customers accounted for more than 5% of our total revenues. Our customers primarily included users, retailers and distributors who use *Weixin Pay* or purchase our products and services. For the year ended 31 December 2020, our five largest suppliers amounted for approximately 16.88% of our total purchases while our largest supplier amounted for approximately 5.12% of our total purchases. Our suppliers primarily include telecommunications operators, content providers, server and IT equipment suppliers and merchandise suppliers. As at 31 December 2020, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owned more than 5% of our issued capital) had an interest in any of the major customers or suppliers noted above.

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 service 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.

Employees

The number of employees employed by us varies from time to time, depending on needs. Our employee count was 85,858 as at 31 December 2020. Most of our employees are based in China.

The remuneration policy and package of our employees are periodically reviewed. Apart from pension funds and in-house training programmes, discretionary bonuses, share awards, and share option may be awarded to employees according to the assessment of individual performance. Our total remuneration costs were RMB42,153 million, RMB53,123 million and RMB69,638 million (US$10,672 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

All of our management and key executives, and substantially all of our other employees, have entered into employment agreements with us, which contain confidentiality and non-competition provisions.

Properties and Facilities

Our executive offices and our major operational facilities are located in Shenzhen. We own properties in a number of cities in China, including Shenzhen, Beijing, Chengdu, Shanghai, Tianjin and Wuhan and lease other offices in the Mainland of China and abroad, including the United States, Thailand, the Netherlands, Malaysia, Japan, India, South Korea and Singapore. We also maintain Internet data centres in China and globally. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans.

Insurance

Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business interruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to subscribe for such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation, or any liability or damage to, or caused by, our facilities or our personnel may result in our incurring substantial costs and the diversion of resources. We carry mandatory automobile liability insurance and property insurance. Besides mandatory social insurance, we also maintain commercial health insurance and life insurance coverage for all our employees.

Legal Proceedings

From time to time, we have become and may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to intellectual property claims, breach of contract claims, unfair competitive practice claims, labour and employment claims and other matters. Internet media companies are frequently involved in litigation based on allegations of infringement or other violations of intellectual property rights and other allegations based on the content available on their website or services they provide. See "*Risk Factors — Risks Related to our Business — We face uncertainties regarding the legal liability for providing third-party services, content and applications on our platforms*", "*Risk Factors — Risks Related to our Business — We may be subject to intellectual property claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business*" and "*Risk Factors — Risks Related to our Business — Legal proceedings or allegations of impropriety against us could have a material adverse effect on our reputation, results of operations and financial condition*". Other than the matters set forth below, we are not currently a party to any material litigation or legal proceeding.

Directors

Our Board currently consists of nine Directors, comprising two Executive Directors, two Non-executive Directors and five Independent Non-executive Directors. The following table sets out the name, age and position of our Directors as at 24 March 2021:

Name	Age	Position
Ma Huateng	49	Executive Director/Chairman of the Board/ Chief Executive Officer
Lau Chi Ping Martin	47	Executive Director/President
Jacobus Petrus (Koos) Bekker	68	Non-executive Director
Charles St Leger Searle	57	Non-executive Director
Li Dong Sheng	63	Independent Non-executive Director
Iain Ferguson Bruce	80	Independent Non-executive Director
Ian Charles Stone	70	Independent Non-executive Director
Yang Siu Shun	65	Independent Non-executive Director
Ke Yang	65	Independent Non-executive Director

Executive Directors

Ma Huateng, age 49, is an Executive Director, Chairman of the Board and Chief Executive Officer of the Company. Mr. Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr. Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr. Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr. Ma is a deputy to the 13th National People's Congress. Mr. Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 27 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr. Ma also serves as a director of certain subsidiaries of the Company.

Lau Chi Ping Martin, age 47, is an Executive Director and President of the Company. Mr. Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, mergers and acquisitions and investor relations. In 2006, Mr. Lau was promoted to President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an executive director of the Company. Prior to joining the Company, Mr. Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. Mr. Lau received a Bachelor of Science degree in Electrical Engineering from University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. Mr. Lau is currently a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider, and *Meituan*, a leading eCommerce platform for services in China; both of these companies are publicly listed on the SEHK. Mr. Lau is also a director of Vipshop Holdings Limited, an online discount retailer company, and *TME*, an online music entertainment platform in China; both of these companies are listed on the New York Stock Exchange. Mr. Lau is also a director of *JD.com*, an online direct sales company in China, that is listed on NASDAQ and the SEHK. Mr. Lau was a director of Leju Holdings Limited, an online-to-offline real estate services provider in China that is listed on the New York Stock Exchange, up to 18 August 2020. Mr. Lau also serves as a director/corporate representative of certain subsidiaries of the Company.

Non-executive Directors

Jacobus Petrus (Koos) Bekker, age 68, has been a Non-executive Director since November 2012. Koos led the founding team of the M-Net/MultiChoice pay-television business in 1985. He was also a founder director of MTN in cellular telephony. Koos headed the MIH group in its international and Internet expansions until 1997, when he became chief executive of Naspers, which is listed on the Johannesburg Stock Exchange and London Stock Exchange. He serves on the boards of other companies within the group and associates, as well as other bodies. In April 2015, he became non-executive chair. On 14 August 2019, he was appointed as non-executive chair of Prosus N.V., which is listed on Euronext Amsterdam and on the Johannesburg Stock Exchange. Academic qualifications include BA Hons and honorary doctorate in commerce (Stellenbosch University), LLB (University of the Witwatersrand) and MBA (Columbia University, New York).

Charles St Leger Searle, age 57, has been a Non-executive Director since June 2001. Mr. Searle is currently the Chief Executive Officer of Naspers Internet Listed Assets. He serves on the board of a number of companies associated with the Naspers Group, including Mail.ru Group Limited that is listed on the London Stock Exchange. Mr. Searle was a director of MakeMyTrip Limited that is listed on NASDAQ up to 30 August 2019. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr. Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia and New Zealand. Mr. Searle has more than 27 years of international experience in the telecommunications and Internet industries. Mr. Searle also serves as a director of certain subsidiaries of the Company.

Independent Non-executive Directors

Li Dong Sheng, age 63, has been an Independent Non-executive Director since April 2004. Mr. Li is the Chairman and Chief Executive Officer of TCL Technology Group Corporation that is listed on the Shenzhen Stock Exchange, and the Chairman and an executive director of TCL Electronics Holdings Limited that is listed on the SEHK, both of which produce consumer electronic products. Mr. Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 26 years of experience in the information technology field. Mr. Li was an independent director of Legrand that is listed on the New York Stock Exchange Euronext up to 30 May 2018, and was also a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the SEHK, up to 29 May 2020.

Iain Ferguson Bruce, age 80, has been an Independent Non-executive Director since April 2004. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996, and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr. Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 50 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors, and the Hong Kong Securities and Investment Institute. Mr. Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, South Shore Holdings Limited (formerly known as The 13 Holdings Limited), a construction, engineering services and hotel development company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the SEHK. Mr. Bruce was an independent non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange, up to 6 March 2020.

Ian Charles Stone, age 70, has been an Independent Non-executive Director since April 2004. Mr. Stone is currently an independent advisor on Technology, Media and Telecoms after retiring from PCCW in Hong Kong in 2011. His career in the last 31 years has been primarily in leading mobile telecoms businesses, and new wireless and Internet technology, during which time he held senior roles in PCCW, SmarTone, First Pacific, Hong Kong Telecom and CSL, as Chief Executive or at Director level, primarily in Hong

Kong, and also in London and Manila. Since 2011, Mr. Stone has provided telecoms advisory services to telecom companies and investors in Hong Kong (China), the Mainland of China, South East Asia and the Middle East. Mr. Stone has more than 50 years of experience in the telecom and mobile industries. Mr. Stone is a fellow member of The Hong Kong Institute of Directors.

Yang Siu Shun, age 65, has been an Independent Non-executive Director since July 2016. Mr. Yang is currently serving as a Member of the 13th National Committee of the Chinese People's Political Consultative Conference, a Justice of the Peace in Hong Kong, a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, a Steward of the Hong Kong Jockey Club, and an independent non-executive director of Industrial and Commercial Bank of China Limited which is publicly listed on the SEHK and the Shanghai Stock Exchange. Mr. Yang retired from PricewaterhouseCoopers ("PwC") on 30 June 2015. Before his retirement, he served as the Chairman and Senior Partner of PwC Hong Kong, the Executive Chairman and Senior Partner of PwC China and Hong Kong, one of the five members of the Global Network Leadership Team of PwC and the PwC Asia Pacific Chairman. Mr. Yang also served as a Board Member and the Audit Committee Chairman of The Hang Seng University of Hong Kong (formerly known as Hang Seng Management College), up to 30 September 2018 and the Deputy Chairman of the Council of The Open University of Hong Kong ("OUHK"), up to 19 June 2019. Mr. Yang graduated from the London School of Economics and Political Science in 1978 and was awarded the degree of Honorary Doctor of Social Sciences by OUHK in 2019. Mr. Yang is a Fellow Member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

Ke Yang, age 65, has been an Independent Non-executive Director since August 2019. Professor Ke is currently the Director of Laboratory of Genetics of Peking University Cancer Hospital and an international member of the United States National Academy of Medicine. Professor Ke is also Vice-president of the Peking University Alumni Association, President of the Peking University Health Science Center Alumni Association, Vice-president of the Chinese Medical Association, Vice-president of China Medical Women's Association, President of the Health Professional Education Committee of the Chinese Association of Higher Education, and Vice-chairperson of the Steering Committee of Clinical Medicine of the Committee of Academic Degrees of the State Council. Professor Ke's research focus is on the upper gastrointestinal tumors, including the cloning of gastric cancer related genes and the functional study of such genes. Together with her team, she has also established the population cohort in esophageal cancer high incidence regions in China, studied the etiology of esophageal cancer, and evaluated the effects and economic efficacy of early screening of the disease. She has published more than 100 papers and had registered patents and been granted awards at national and provincial levels for technological and educational achievements. Professor Ke was a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference, an executive Vice-president of Peking University and of the Peking University Health Science Center (formerly known as Beijing Medical College), a member of the Committee of Academic Degrees of the State Council, a member of the Healthcare Reform Advisory Committee of the State Council and the Chairperson of the Working Committee for Graduate Medical and Pharmaceutical Education of the Office of Academic Degrees of the State Council. Professor Ke graduated from the Peking University Health Science Center in 1982. From 1985 to 1988, Professor Ke worked at the National Cancer Institute of the National Institutes of Health of the United States as a postdoctoral fellow.

Senior Management (Non-Directors)

Xu Chenye, age 49, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, and customer relations of the Company. Mr. Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr. Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr. Xu received a Bachelor of Science degree in Computer Science from Shenzhen University in 1993 and a Master of Science degree in Computer Science from Nanjing University in 1996. Mr. Xu currently serves as a director or officer of certain subsidiaries of the Company.

Ren Yuxin, age 45, Chief Operating Officer and President of Platform & Content Group and Interactive Entertainment Group, joined the Company in 2000 and had served as the General Manager for the Value-Added Services Development Division and General Manager for the Interactive Entertainment Business Division. Since September 2005, Mr. Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr. Ren has been appointed as Chief Operating Officer and is now in charge of the overall operation of the Platform & Content Group and the Interactive Entertainment Group. Prior to joining the Company, Mr. Ren worked at Huawei Technologies Co., Ltd. Mr. Ren received a Bachelor of Science degree in Computer Science and Engineering from University of Electronic Science and Technology of China in 1998 and an EMBA degree from China Europe International Business School (CEIBS) in 2008. Mr. Ren currently serves as a director of a subsidiary of the Company.

Zhang Xiaolong, age 51, Senior Executive Vice President and President of Weixin Group, joined the Company in March 2005 and had served as the General Manager for the Guangzhou R&D Division and led the *QQ Mail* team to be the top mail service provider in China. Later he was promoted to Corporate Vice President and since September 2012, Mr. Zhang has been appointed as Senior Vice President in charge of the product and team management of *Weixin*/*WeChat* and *QQ Mail*. He is also responsible for the management and review of major innovation projects. In May 2014, Mr. Zhang was promoted to Senior Executive Vice President in charge of the Weixin Group. Prior to joining the Company, Mr. Zhang developed Foxmail independently in 1997 as the first generation of Internet software developer in China. He joined Boda China as Corporate Vice President in 2000, responsible for corporate mail developing. Mr. Zhang received a Master's degree in Telecommunications from Huazhong University of Science and Technology in 1994.

James Gordon Mitchell, age 47, Chief Strategy Officer and Senior Executive Vice President, joined the Company in 2011. He is responsible for various functions, including the Company's strategic planning and implementation, investor relations, mergers and acquisitions and investment activities. Prior to joining the Company, Mr. Mitchell had worked in investment banking for 16 years. Most recently, Mr. Mitchell was a managing director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analysed Internet, entertainment and media companies globally. Mr. Mitchell received a degree from Oxford University and holds a Chartered Financial Analyst Certification. Mr. Mitchell currently serves as a director of certain subsidiaries of the Company.

Tong Tao Sang, age 47, Senior Executive Vice President, President of Cloud and Smart Industries Group and Chairman of *TME*, is leading the Industrial Internet strategy and the enterprise businesses for Tencent. Mr. Tong manages the security labs, the multi-media lab, and Youtu AI lab, and he is one of the co-chairs of Tencent's technology council. Mr. Tong joined the Company as a technical architect in 2005, and had previously led *QQ*, *Qzone*, *QQshow*, and their advertising and value-added services. Prior to joining the Company, Mr. Tong worked for Sendmail, Inc. on managing the product development of operator-scale messaging systems. Mr. Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. Mr. Tong received a Bachelor of Science degree in Computer Engineering from University of Michigan, Ann Arbor and a Master of Science degree in Electrical Engineering from Stanford University. Mr. Tong currently serves as a director of certain subsidiaries of the Company.

Lu Shan, age 46, Senior Executive Vice President and President of Technology and Engineering Group, joined the Company in 2000 and had served as the General Manager for the IM Product Division, Vice President for the Platform Research and Development System and Senior Vice President for the Operations Platform System. Since March 2008, Mr. Lu has been in charge of management of the Operations Platform System of the Company. Since May 2012, Mr. Lu has been in charge of management of the Technology and Engineering Group. Prior to joining the Company, he worked for Shenzhen Liming Network Systems Limited. Mr. Lu received a Bachelor of Science degree in Computer Science and Technology from University of Science and Technology of China (USTC) in 1998. Mr. Lu currently serves as a director or officer of certain subsidiaries of the Company.

David A M Wallerstein, age 46, Chief eXploration Officer and Senior Executive Vice President, joined the Company in 2001. He drives the Company's active participation in emerging technologies, business areas, and ideas, with a passion for contributing to a more resilient planet. Prior to joining the Company, Mr. Wallerstein worked for Naspers in China. Mr. Wallerstein received a Bachelor's degree from University of Washington and a Master's degree from UC Berkeley. Mr. Wallerstein currently serves as a director of certain subsidiaries of the Company.

Ma Xiaoyi, age 47, Senior Vice President, joined the Company in 2007 and has been responsible for international publishing of Tencent Games, establishing and maintaining long-term business partnerships and cooperation for the Company since November 2008. Prior to joining the Company, Mr. Ma served as the General Manager of the games division of OPTIC Communication Co., Ltd. Prior to that, Mr. Ma worked as the General Manager in Shanghai EasyService Technology Development Ltd. Mr. Ma graduated from Shanghai Jiaotong University in 1997, and received an EMBA degree from Fudan University in 2008. Mr. Ma currently serves as a director of certain subsidiaries of the Company.

Lin Ching-Hua, age 48, Senior Vice President, joined the Company in 2013 and has been responsible for the exploration and development of the Company's Advertising and Smart Retail businesses. He also oversees strategic development of the Company and drives the Group's strategic upgrade and business collaboration. In 2020, Mr. Lin was promoted to Senior Vice President. Prior to joining the Company, Mr. Lin was a partner at McKinsey & Company and the managing partner of its Taiwan office. Mr. Lin received a Bachelor of Sociology degree from National Taiwan University and a Master of Business Administration degree from Harvard University. Mr. Lin currently serves as a director or officer of certain subsidiaries of the Company.

John Shek Hon Lo, age 52, Chief Financial Officer and Senior Vice President, joined the Company in 2004 and had served as the Company's Financial Controller from 2004 to 2008. Mr. Lo was promoted to the Company's Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr. Lo worked at PricewaterhouseCoopers. He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants, a Fellow of the Chartered Institute of Management Accountants and a Member of the Association of Chartered Certified Accountants. Mr. Lo received a Bachelor of Business degree in Accounting from Curtin University and an EMBA degree from Kellogg Graduate School of Management, Northwestern University and The Hong Kong University of Science and Technology. Mr. Lo currently serves as a director of a subsidiary of the Company.

Guo Kaitian, age 48, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of legal affairs, administration, infrastructure, procurement, public strategy, information security and corporate social responsibility. Mr. Guo received a Bachelor of Law degree from Zhongnan University of Economics and Law in 1996. Mr. Guo currently serves as a director of a subsidiary of the Company.

Xi Dan, age 45, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's talent development and functional management since May 2008. Prior to joining the Company, Mr. Xi was responsible for HR management in ZTE Corporation and has more than 25 years of experience in IT and Internet industries. Mr. Xi received a Bachelor of Science degree in Applied Computer Science from Shenzhen University in 1996 and an MBA degree from Tsinghua University in 2005. Mr. Xi currently serves as a director or officer of certain subsidiaries of the Company.

Yeung Kwok On, age 59, Senior Management Adviser, joined the Company in 2008. He supports and facilitates organisational innovation and leadership development within the Company and its key strategic partners such as *JD.com*, DiDi, *Meituan* and 58.com. Mr. Yeung also serves as Dean of TencentX, a corporate learning platform that has approximately 400 entrepreneur alumni. Prior to joining the Company,

Mr. Yeung, as a professor, had taught at University of Michigan and China Europe International Business School and also served as Chief HR Officer of Acer Group from 1998 to 2002. Mr. Yeung received a Bachelor's and a Master's degree from The University of Hong Kong and a Doctoral degree from University of Michigan.

Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors and one Non-executive Director, with Mr. Yang Siu Shun as the Chairman. To retain independence and objectivity, the Audit Committee is chaired by an Independent Non-executive Director (with appropriate professional qualifications or accounting or related financial management expertise). The primary duties of the Audit Committee are to review and oversee our financial reporting system, risk management and internal control systems, anti-money laundering and sanctions compliance system and handle the relationship with the external auditor.

Corporate Governance Committee

The Corporate Governance Committee currently comprises four Independent Non-executive Directors and one Non-executive Director, with Mr. Charles St Leger Searle as the Chairman. The primary duties of the Corporate Governance Committee are to develop and review our policies and practices on corporate governance and ESG, and make recommendations to the Board.

Investment Committee

The Investment Committee currently comprises two Executive Directors and one Non-executive Director, with Mr. Lau Chi Ping Martin as the Chairman. The primary duties of the Investment Committee are to identify, consider and make recommendations on mergers, acquisitions and disposals, and ensure compliance of the Listing Rules and any other relevant laws and regulations of any mergers, acquisitions and disposals.

Nomination Committee

The Nomination Committee currently comprises three Independent Non-executive Directors, one Non-executive Director and one Executive Director, with Mr. Ma Huateng as the Chairman. The primary duties of the Nomination Committee are to review and monitor the structure, size, composition and diversity (including without limitation, skills, knowledge, experience, gender and background) of the Board regularly and make recommendations to the Board on the selection of individuals nominated for directorships to complement our corporate strategy.

Remuneration Committee

The Remuneration Committee currently comprises two Independent Non-executive Directors and one Non-executive Director, with Mr. Ian Charles Stone as the Chairman. The primary duties of the Remuneration Committee are to make recommendations to the Board on the policy and structure of remuneration of our Directors and senior management team and review our general policy relating to strategic compensation issues.

Compensation of Directors and Senior Management

The aggregate amount of compensation (including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contributions to pension plans) paid or payable to our Directors for each of the years ended 31 December 2018, 2019 and 2020 was RMB368 million, RMB420 million and RMB507 million, (US$78 million), respectively.

During the year ended 31 December 2020, 4,399,815 share options were granted to one Executive Director and 59,500 awarded shares were granted to five Independent Non-executive Directors of the Company. During the year ended 31 December 2019, 3,506,580 share options were granted to one Executive Director and 59,484 awarded shares were granted to five Independent Non-executive Directors of the Company. During the year ended 31 December 2018, 3,215,800 share options were granted to one Executive Director and 39,500 awarded shares were granted to four Independent Non-executive Directors of the Company.

During the years ended 31 December 2018, 2019 and 2020 and other than as set out below:

- No remuneration was paid by us or receivable by our Directors as an inducement to join or upon joining us.

- No compensation was paid by us to or receivable by our Directors or past Directors for the loss of office as a Director or for loss of any other office in connection with the management of our affairs.

- None of our Directors waived any compensation.

The remuneration of members of our senior management team is determined by the Remuneration Committee and is reviewed on an annual basis taking into consideration performance criteria such as the Company's operating results, individual performance and comparable market statistics.

For the year ended 31 December 2018, the five highest paid individuals in the group included one Director, whose aggregate compensation has been included in the aggregate compensation of our Directors above. For the year ended 31 December 2019, the five highest paid individuals in the group included one Director, whose aggregate compensation has been included in the aggregate compensation of our Directors above. For the year ended 31 December 2020, the five highest paid individuals in the group included one Director, whose aggregate compensation has been included in the aggregate compensation of our Directors above. Including the compensation of such Directors, the aggregate emoluments (including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contributions to pension plans) paid/payable to the five highest paid individuals during the years ended 31 December 2018, 2019 and 2020 were RMB1,687 million, RMB2,386 million and RMB2,943 million, respectively. No compensation was paid/payable by us to such individuals for the years ended 31 December 2018, 2019 and 2020 for loss of office in connection with the management of our affairs.

Except as disclosed above, no other payments have been paid or payable by us or any of our subsidiaries to our Directors, with respect to the years ended 31 December 2018, 2019 and 2020.

GENERAL REGULATION ON INTERNET AND TELECOMMUNICATIONS INDUSTRIES

The following discussion summarises certain aspects of PRC law and regulations, which are relevant to our operations and business. For a description of the legal risks relating to government regulation of our business, see "*Risk Factors*".

CORPORATE LAWS AND INDUSTRY CATALOGUE RELATING TO FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the Mainland of China are governed by the Company Law of the PRC ("**Company Law**") (公司法), effective in 1994, amended in December 1999, August 2004, October 2005, December 2013 and October 2018 (effective as at 26 October 2018). The Company Law is applicable to our subsidiaries and consolidated affiliated entities in the Mainland of China unless the PRC laws on foreign investment have stipulated otherwise.

The establishment, approval, registered capital requirement and day-to-day operational matters of wholly foreign-owned enterprises are regulated by the Foreign Investment Law of the PRC (外商投資法) effective on 1 January 2020, and the Implementation Rules of the Foreign Investment Law of the PRC (外商投資法實施細則) effective on 1 January 2020. The Foreign Investment Law (外商投資法) replaced the trio of laws regulating foreign investment in China, namely, the Sino-Foreign Equity Joint Venture Enterprise Law (中外合資經營企業法), the Sino-Foreign Contractual Joint Ventures Law of the PRC (中外合作經營企業法) and the Wholly Foreign-owned Enterprise Law of the PRC (外資企業法), together with their implementation rules and ancillary regulations. The foreign-invested enterprises established prior to the effective of the Foreign Investment Law (外商投資法) may keep their corporate forms within five years from 1 January 2020. Pursuant to the Foreign Investment Law (外商投資法), "foreign investors" means natural person, enterprise, or other organisation of a foreign country, "foreign-invested enterprises" ("**FIEs**") means any enterprise established under PRC law that is wholly or partially invested by foreign investors, and "foreign investment" means any foreign investor's direct or indirect investment in the Mainland of China, including: (i) establishing FIEs in the Mainland of China either individually or jointly with other investors; (ii) acquiring stock shares, stock equity, property shares, other similar interests in Chinese domestic enterprises; (iii) investing in new projects in the Mainland of China either individually or jointly with other investors; and (iv) making investment through other means provided by laws, administrative regulations, or State Council provisions. In addition, foreign investors or FIEs are required to file information reports and foreign investment shall be subject to the national security review.

Investment activities in the Mainland of China by foreign investors are principally governed by the Special Administrative Measures for Entrance of Foreign Investment (2020 Version) (外商投資准入特別管理措施(負面清單) (2020年版)) ("**2020 Foreign Investment Negative List**"), which were promulgated jointly by MOFCOM and NDRC on 23 June 2020 and became effective on 23 July 2020, and the Industry Guidelines of Encouraged Foreign Investment (2020 Version) (鼓勵外商投資產業目錄(2020年版)), which were promulgated jointly by MOFCOM and NDRC on 27 December 2020 and became effective on 27 January 2021, collectively replaced and abolished the Industry Guidelines of Encouraged Foreign Investment (2019 Version) and the Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2019 Version) regulating foreign investment in China. Pursuant to the 2020 Foreign Investment Negative List, foreign investors should refrain from making investment in any of the prohibited sectors specified in the 2020 Foreign Investment Negative List, and foreign investors are required to obtain permits or fulfill the specific requirements for access to other sectors that are listed in the 2020 Foreign Investment Negative List but not classified as "prohibited".

On 30 December 2019, the Ministry of Commerce and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (外商投資信息報告辦法), which became effective on 1 January 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises Interim Administrative Measures (外商投資企業設立及變更備案管理暫行辦法). Since 1 January 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to

these measures. The FIL defines foreign investment as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organisations (the "**Foreign Investor(s)**"), and specifically stipulates four forms of investment activities as foreign investment, namely, (a) establishment of a foreign-invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor, (b) obtaining shares, equities, assets interests, or any other similar rights or interests of a PRC domestic enterprise by a Foreign Investor, (c) investment in any new project in the PRC by a Foreign Investor, either individually or collectively with any other investor, and (d) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council. The FIL establishes the administration systems for foreign investment, which mainly consists of national treatment plus negative list system, foreign investment information report system and security review system. The said systems, together with other administration measures stipulated under the FIL, constitute the frame of foreign investment administration. Establishment of wholly foreign-owned enterprises is generally permitted in other industries.

Pursuant to the 2020 Foreign Investment Negative List, foreign investment access in the telecommunications services industry shall be limited to areas committed to be liberalised by the PRC government upon its accession to the World Trade Organisation. Specifically, foreign investment access shall not exceed 50% in the industry of value-added telecommunications services (excluding e-commerce business, domestic multi-party communication, storage and forwarding business and call center). The 2020 Foreign Investment Negative List also provides that foreign investment is prohibited in businesses that operate in internet news information services, online publication services, online audio-visual programme services, online cultural businesses (excluding music services) and internet public information release services (services already liberalised by China under its commitments upon accession to the World Trade Organisation shall be excluded from the foregoing services).

REGULATORY AUTHORITIES

Certain areas related to the Internet, such as telecommunications, Internet information services, international connections to computer information networks, information security and censorship are regulated heavily in the PRC and are covered extensively by a number of existing laws and regulations issued by various PRC governmental authorities, including but not limited to:

- China Securities Regulatory Commission ("**CSRC**");
- NAPP;
- MIIT;
- MPS;
- MOCT;
- MOFCOM;
- NRTA;
- PBOC;
- the State Council Information Office ("**SCIO**");
- SAFE;
- SAMR;
- CAC;

GENERAL REGULATIONS ON INTERNET AND TELECOMMUNICATIONS INDUSTRIES

Regulations on Value-added Telecommunications Services

The Telecommunications Regulations (電信條例) ("**Telecom Regulations**") which was promulgated on 25 September 2000 and amended on 29 July 2014 and 6 February 2016 respectively by the State Council draws a distinction between 'basic telecommunication services' and 'value-added telecommunication services'. Pursuant to the currently effective Catalogue of Telecommunications Business (電信業務分類目錄(2015 edition)), which supersedes the 2003 edition and took effect on 1 March 2016 and has been amended on 6 June 2019, "value-added telecommunication services" are divided into Category I with respect to services based on infrastructure and resource and Category II regarding services based on public application platform. Category I value-added telecommunications services cover: (i) Internet Data Centre Services; (ii) Content Delivery Network Services; (iii) Domestic Internet Protocol Virtual Private Network Services; (iv) Internet Access Services. Category II value-added telecommunications services cover: (i) On-line Data Processing and Transaction Processing Services; (ii) Domestic Multi-party Communications Services; (iii) Storage and Forwarding Services; (iv) Call Centre Services; (v) Information Services and (vi) Code and Protocol Translation Services. Under the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an operating licence from MIIT or its local branch.

On 25 September 2000, the State Council promulgated the Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) ("**Internet Measures**"), which was amended on 8 January 2011. According to the Internet Measures, Internet content provision services ("**ICP**") is a subcategory of value-added telecommunications services and ICP operators must obtain an ICP Licence ("**ICP Licence**") from MIIT or its local branch before engaging in any commercial ICP operations within the PRC. When the Internet information service involves certain particular areas, such as news, publication, education, medical care, pharmaceuticals, and medical equipment, prior approval from the respective regulatory authorities must be obtained prior to applying for the ICP Licence. CAC and MIIT jointly released a draft bill for amended Internet Measures in June 2012, although such bill has not been passed as at the date hereof.

On 3 July 2017, MIIT promulgated the Administrative Measures on Telecommunications Business Operating Licence (電信業務經營許可管理辦法) ("**Telecom Licence Measures**"), which supersedes the 2009 edition and took effect on 1 September 2017. The Telecom Licence Measures set forth the qualifications and procedures for obtaining the telecommunication operating licences, the supervision obligation of telecommunications service operators and the obligation to submit annual reports. Telecommunication operators are required to file an annual report including the information with respect to their operations during the previous year and implementation of the network and information security maintenance systems and measures with the competent authorities in first quarter of each year. A telecommunication operator conducting value-added telecommunications services within a single province must obtain the telecommunication operating licences from MIIT's local branch, while a telecommunication operating licences providing value-added telecommunication services across different provinces must obtain a trans-regional telecommunication operating licence directly from MIIT and file with the relevant MIIT's local branches.

In July 2013, MIIT promulgated the Regulations on Protection of Personal Information of Telecommunications and Internet Users (電信和互聯網用戶個人信息保護規定) ("**Regulations on Network Information Protection**"), effective on 1 September 2013, to enforce the Network Information Protection Decision (全國人民代表大會常務委員會關於加強網絡信息保護的決定), promulgated by the Standing Committee of the PRC National People's Congress in December 2012, with the goal of enhancing and protecting information security and privacy on the Internet. The Regulations on Network Information Protection require Internet operators to take various measures to ensure the privacy and confidentiality of user information, including supervision and management over those third-party services provided by Internet operators.

On 22 June 2020, MIIT promulgated the Notice regarding Strengthening the Management of Call Center Business (關於加強呼叫中心業務管理的通知), which has further strengthening the management on the admittance, codes, accessing, operation activities and certain other items.

Regulations on Foreign Investment in the Value-added Telecommunications Services

Foreign investment in the telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) ("**FITE Regulations**"), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016 respectively. Pursuant to the FITE Regulations, a foreign investor must establish a foreign invested telecommunications enterprise ("**FITE**") with a PRC joint venture partner, to engage in basic telecommunications and value-added telecommunications businesses. On 19 June 2015, the MIIT promulgated the Circular of the Ministry of Industry and Information Technology on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business ("**Circular 196**") (工業和信息化部關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告). According to Circular 196, the restrictions over foreign shareholding percentage in online data processing and transaction processing (operating e-commerce) business have been reduced nationwide, and the foreign investor may hold up to 100% of the equity interest in a PRC company which engages in online data processing and E-commerce business; provided that such foreign investor demonstrates a good track record and experience in operating value-added telecommunications services and obtains approvals from the competent MIIT and MOFCOM.

The 2020 Foreign Investment Negative List classified the value-added telecommunication services as restricted foreign investment industry by requiring the equity ratio of foreign investors shall not exceed 50%, except for the e-commerce, storage and forwarding or call center, which means that a foreign investor may hold more than 50% of the equity in a PRC company engaging in the e-commerce, storage and forwarding or call center industry.

On 13 July 2006, MIIT issued the Circular on Intensifying the Administration of Foreign Investment in and Operation of Value-added Telecommunications Services (關於加強外商投資經營增值電信業務管理的通知) ("**the MIIT Circular**"). The MIIT Circular emphasises that a foreign investor planning to invest in the value-added telecommunications sector in the PRC must set up a FITE and apply for the applicable telecommunications business operation licence. A domestic value-added telecommunications services provider shall not lease, transfer or sell any telecommunications business operation licence to a foreign investor, or provide resources, sites, facilities or other conditions for a foreign investor in any way to illegally operate a telecommunications business in the PRC. Foreign invested enterprises would need to submit relevant foreign investment materials to MIIT for the establishment or change of telecommunication operating permits.

According to the MIIT Circular, if a foreign investor co-operates with a domestic value-added telecommunications services provider, the following requirements apply: (i) the domain names and registered trademarks used by the value-added telecommunications services provider must be legally owned by itself or its shareholder; (ii) the value-added telecommunications services provider must have the necessary premises and facilities for its approved business operations and maintain such facilities in the regions covered by its licence; and (iii) the value-added telecommunications services provider must safeguard its network and internet security in accordance with standards set forth in the Baseline Requirements for Network and Information Security of Value-added Telecommunication Services (增值電信業務網絡信息安全保障基本要求).

On 28 September 2009, GAPP, the National Copyright Administration, and the National Office of Combating Pornography and Illegal Publications jointly issued the Notice on Implementing the Provisions of the State Council on "Three Determinations" and the Relevant Explanations of the State Commission Office for Public Sector Reform and further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (關於貫徹落實國務院"三定"規定和中央編辦有關解釋,進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知)

("**Circular 13**"). Circular 13 states that foreign investors are not permitted to invest in online game operating businesses in the PRC via wholly-owned, PRC-foreign equity joint ventures or co-operative joint ventures or to exercise control over or participate in the operation of domestic online game businesses through indirect means, such as other joint venture companies or contractual or technical arrangements. Regarding the risks with respect to the MIIT Circular and Circular 13, please 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 the 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*".

Regulations on the Order of the Internet Information Service Market

On 29 December 2011, the MIIT promulgated Certain Rules on Regulating the Order of the Internet Information Service Market (規範互聯網信息服務市場秩序若干規定) ("**Internet Market Order Rules**"), effective from 15 March 2012. The Internet Market Order Rules aim to regulate the order of the Internet information service market, protect the legitimate rights and interests of Internet information service providers and users, and promote the healthy development of the Internet industry. Pursuant to the Internet Market Order Rules, an Internet information service provider shall offer services under the principles of equality, voluntariness, fairness and integrity, and shall not commit acts infringing the legitimate rights and interests of other service providers and users such as maliciously interfering in services offered by other Internet information service providers at user terminals, or maliciously interfering in the downloading, installation, operation and upgrading of software and other products related to Internet information services, or refusing, postponing or ceasing to provide users with Internet information services or products without any proper reason. An Internet information service provider may be subject to administrative penalties, including warnings and fines and other legal liabilities, for violation of the Internet Market Order Rules.

Regulations on Internet Content Services

National security considerations are an important factor in the regulation of Internet content in the PRC. Under the Internet Measures, violators may be subject to penalties, including criminal sanctions, for the production, duplication, posting or dissemination of any Internet content that:

- opposes the fundamental principles stated in the PRC Constitution;
- jeopardises national security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- undermines PRC religious policy or propagates heretical teachings or feudal superstitions;
- disseminates rumors, disturbs social order or disrupts social stability;
- disseminates obscenity, pornography, gambling, violence, murder, terror or induces crimes;
- humiliates or defames any other person, or infringes the legal interests of any other person; or
- is otherwise prohibited by the laws or administrative regulations.

ICP operators are required to monitor their websites. They shall not post or disseminate any content that falls within these prohibited categories and must remove any such content from their websites. Those who fail to observe the requirements shall be sanctioned by the public security or State security authorities in accordance with the Law of the People's Republic of China on Public Security Control and Sanctions (2012 Revision) (中華人民共和國治安管理處罰法(2012修正)) and the Regulation on Protection of Security in International Connection of Computer Information Networks (2011 Revision) (計算機資訊網絡國際聯網安全保護管理辦法(2011修訂)) as well as other laws and administrative regulations. In the case of commercial Internet information service providers who fail to observe the requirements, they shall be ordered by the authority issuing the Service Licence to temporarily suspend their services or their Service Licences may be revoked while non-profit Internet information service providers shall be ordered by the record-filing authority to temporarily or permanently shut down their websites.

Pursuant to the Decisions on Maintenance of Internet Security (關於維護互聯網安全的決定) ("**Internet Security Decisions**") that was adopted by the Standing Committee of National People's Congress, the PRC national legislative body on 28 December 2000 and was amended on 27 August 2009, individuals or entities may be subject to criminal charges for certain misconduct which threaten or harm (i) the Internet operation safety; (ii) national security and social stability; (iii) economic system and social management and (iv) legal rights and interests of individuals, legal persons and other organisations.

On 21 January 2010, MIIT promulgated the Administrative Measures on the Security and Protection of Communication Networks (通信網絡安全防護管理辦法), according to which, Internet operators shall file the certain information regarding its operated public networks and Internet with MIIT.

The PRC Supreme People's Court and the Supreme People's Procuratorate jointly issued the Interpretations and the Interpretations II, on Several Issues Relating to the Specific Application of Laws in Handling Criminal Cases Involving the Use of Internet, Mobile Communication Terminal or Information Service Station for Producing, Duplicating, Publishing, Selling or Disseminating Obscene Electronic Information (最高人民法院、最高人民檢察院關於辦理利用互聯網、移動通訊終端、聲訊台製作、複製、出版、販賣、傳播淫穢電子信息刑事案件具體應用法律若干問題的解釋和解釋(一)/(二)) on 3 September 2004 and 2 February 2010, respectively. According to these judicial interpretations, the executive assuming direct responsibility and other directly responsible personnel of the Internet service operator, shall be convicted and punished accordingly if the Internet service operator knowingly provides any service to an obscene website or an obscene information provider.

On 4 February 2015, the CNNIC promulgated the Administrative Provisions on Account Names of Internet Users (互聯網用戶賬號名稱管理規定), which became effective on 1 March 2015. According to such provisions, Internet service providers must inspect the account names, Avatars and profiles submitted by users, authenticate the identity information of the registered users, report to the competent authorities regarding any violation of the provisions.

Pursuant to the Ninth Amendment to the Criminal Law (刑法修正案(九)) which became effective on 1 November 2015, Internet service providers that fail to fulfill the obligations related to internet information security administration as required by applicable laws and regulations and refuse to rectify upon orders will be subject to criminal liability for (i) any dissemination of illegal information at a large scale; (ii) any severe impact due to the leakage of the information of users; (iii) any serious loss of evidence of criminal activities; or (iv) other severe circumstances. An Internet service provider will be subject to criminal liability if it is aware of any individual or entity committing crime by Internet and provides internet access, server hosting, network storage, communication transmission and other technical support, or provides advertising services, payment services or other assistance to such individual or entity.

On 7 November 2016, the Standing Committee of the National People's Congress promulgated the Cyber Security Law (網絡安全法), which became effective on 1 June 2017. Pursuant to the Cyber Security Law, Internet service providers must take technical measures to safeguard the operation of networks, respond to cyber security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. Internet service providers shall require the users to provide their real identity information when signing agreements or confirmations on the provision of such services as network access, domain name registration, fixed phone and mobile phone network access, or information release and instant communication, and in case that a user does not provide his/her real identity information, internet service providers shall not provide related services for the user. The Cyber Security Law further requires Internet service providers to formulate contingency plans for cyber security incidents, report to the competent departments immediately upon the occurrence of any incident endangering cyber security and take corresponding remedial measures.

At the end of 2019, the CAC issued the Management of Network Information Content Ecology (網絡信息內容生態治理規定) (the "**CAC Order No. 5**"), which became effective on 1 March 2020, to further strengthen the regulation and management of network information content. Pursuant to the CAC Order No. 5, each network information content service platform is required, among others, (i) not to disseminate any information prohibited by laws and regulations, such as information jeopardizing national security; (ii) to strengthen the examination of advertisements published on such network information content service platform; (iii) to promulgate management rules and platform convention and improve user agreement, such that such network information content service platform could clarify users' rights and obligations and perform management responsibilities required by laws, regulations, rules and convention; (iv) to establish convenient means for complaints and reports; and (v) to prepare annual work report regarding its management of network information content ecology. In addition, a network information content service platform must not, among others, (i) utilise new technologies such as deep-learning and virtual reality to engage in activities prohibited by laws and regulations; (ii) engage in online traffic fraud, malicious traffic rerouting and other activities related to fraudulent account, illegal transaction account or maneuver of users' account; and (iii) infringe a third-party's legitimate rights or seek illegal interests by way of interfering with information display.

Regulations on Internet Cultural Activities

On 10 May 2003, MOC promulgated the Provisional Regulations for the Administration of Internet Culture (互聯網文化管理暫行規定) ("**Internet Culture Regulations**"), which were revised on 1 July 2004, 17 February 2011 and 15 December 2017 and the revised Internet Culture Regulations became effective on 15 December 2017. The Internet Culture Regulations apply to entities that engage in activities related to "Internet cultural products", which are classified as cultural products produced, disseminated and circulated via the Internet, including Internet cultural products: (i) specifically produced for the Internet, such as online music entertainment, online games, network games, network performance programmes, online performing arts, online artworks and online animation features and cartoons and so forth; and (ii) converted from music entertainment, games, performance programmes, performing arts, artworks and animation features and cartoons and disseminated via the Internet. Pursuant to the Notice on Adjustment of Approval Scope of the Internet Culture Operation License and Further Regulation on Approval issued by the office of the MOCT (文化和旅遊部辦公廳關於調整網絡文化經營許可證審批範圍進一步規範審批工作的通知) on 14 May 2019, MOCT no longer assumes the responsibility for the administration of online game industry and online games were removed from "Internet cultural products".

Pursuant to the Internet Culture Regulations effective on 15 December 2017, an entity is required to obtain a Network Culture Operating Permit from the relevant local branch of MOC (currently MOCT), in addition to the ICP Licence if it intends to commercially engage in any of the following types of activities:

(i) production, duplication, import, distribution or broadcasting of Internet cultural products;

(ii) publication of Internet cultural products on the Internet or transmission of Internet cultural products via an information network, such as the Internet and mobile networks, to a computer, fixed-line or mobile phones, television sets or games consoles for the purpose of browsing, reviewing, using or downloading such products by online users; or

(iii) exhibitions or contests related to Internet cultural products.

On 12 August 2013, MOC promulgated the Administrative Rules on Self-Censorship by Internet Culture Operators (網絡文化經營單位內容自審管理辦法) ("**Internet Culture Operators Self-Censorship Measures**"), effective as at 1 December 2013, according to which, each Internet cultural operator shall undertake an internal review by at least two qualified staff members on the content of the Internet cultural products before they are made public which is verified by the manager in charge of such review.

REGULATIONS ON ONLINE GAMES AND PUBLICATIONS

Regulations on Electronic and Internet Publications

On 21 February 2008, GAPP issued the Regulations on the Administration of the Publication of Electronic Publications (電子出版物出版管理規定) ("**Electronic Publications Regulations**"), which was amended on 28 August 2015 and repealed the prior Regulations on Administration of Electronic Publications (電子出版物管理規定) issued on 30 December 1997. Pursuant to the Electronic Publications Regulations, the PRC implements a licensing system for publishing of electronic publications. A company wishing to publish electronic publications must meet the specified requirements with respect to registered capital, equipment, premise, organisational structure and obtain an approval from GAPP. With such approval, the company must then register with the local branch of GAPP and obtain an Electronic Publications Publishing Licence. A company engaged in publishing of electronic publications is also required to go through a regular inspection process every two years, during which the company's registration, qualification, business operation, compliance and internal management will be reviewed by the local branch of GAPP.

On 31 March 2015, the SAPPRFT issued the Guiding Opinion on Promoting the Integrated Development of Traditional and New Publication (關於推動傳統出版和新興出版融合發展的指導意見). Pursuant to this Opinion, competent authorities shall (i) promote a content dissemination system integrating online and offline development and (ii) use big data, cloud computing, mobile Internet, Internet of things and other technologies to strengthen the building of publication content, products and user databases and improve the capacity of data gathering, storage, management, analysis and use.

GAPP and MIIT Provisions was issued by GAPP and MIIT on 4 February 2016 and effective on 10 March 2016, which abolished the Interim Regulations on Administration of Internet Publication (互聯網出版管理暫行規定) issued on 27 June 2002. GAPP and MIIT Provisions require business operations involving Internet publishing to be approved by GAPP. Internet publishing services are defined as activities of providing Internet publications to the public through information networks.

Under Circular 13, provision of online games via Internet is regarded as an Internet publishing activity and online game operators must be examined and approved by GAPP (currently NAPP). With such approval, the online game operator will receive an Internet Publishing Licence specifically allowing for online game operation business. The notice prohibits any direct foreign investment in online game operation business. Furthermore, it prohibits foreign control or participation in domestic companies' online game operation business in an indirect way such as entering into technical support agreements or in any other disguised manner.

Regulations on Online Game Operations

Online game operations are covered extensively by a number of existing laws and regulations issued by various PRC governmental authorities, including MIIT, GAPP and MOC. Under the Electronic Publications Regulations and other regulations issued by GAPP, online games are classified as a kind of electronic production. It requires online games to be published by licenced electronic publishing entities with standard publication codes. The GAPP (currently NAPP) and MIIT Provisions require online game operators, to obtain an Internet Publication Licence from GAPP prior to directly making its online games publicly available in the PRC. Under the revised Internet Culture Regulations, which became effective on 1 April 2011, online game operators are required to apply to the local branch of MOC (currently MOCT) for a Network Culture Operating Permit as online games fall within the scope of Internet cultural products.

However, online games have been removed from the scope of "Internet cultural products" since 14 May 2019. On 14 May 2019, the MOC promulgated the Notice to Adjust the Scope of Approval for the Internet Culture Business License and to Further Regulate the Examination and Approval Work (關於調整《網絡文化經營許可證》審批範圍進一步規範審批工作的通知) ("**MOCT Adjustment Notice**"). According to such notice, the MOC no longer assumes responsibility for administering the industry of online games.

Pursuant to the Computer Software Protection Regulations (計算機軟件保護條例) promulgated by the State Council on 20 December 2001, and revised in January 2011 and January 2013, a software copyright holder may apply to register his/her software with the competent software registration organ and a registration certificate issued by the software registration organ shall be a prima facie evidence of items having been registered. In order to further implement the Computer Software Protection Regulations, the National Copyright Administration of the PRC issued the Computer Software Copyright Registration Procedures (計算機軟件著作權登記辦法) on 20 February 2002, which apply to software copyright registration, licence contract registration and transfer contract registration. Pursuant to the Computer Software Copyright Registration Procedures, the software being registered shall be independently developed software or software where important improvements have been made in terms of the functionality or performance of the original software through changes being made to the software with the approval of the original copyright owner. If an application for the registration of software is approved, a corresponding registration of software certificate shall be issued and the registration shall be publicly announced.

Regulations on Online Game Censorship and Imported Games

On 12 July 2005, MOC and MIIT promulgated the Opinions on the Development and Administration of Online Games (關於網絡遊戲發展和管理的若干意見), reflecting the government's intent to both foster and control the development of the online game industry in the PRC. In addition, MOC will censor online games that "threaten state security", "disturb the social order", or contain "obscenity" or "violence".

Pursuant to Circular 13, online game operators must provide each online game to GAPP (currently NAPP) for examination and approval prior to its online release. Circular 13 further provides that GAPP (currently NAPP) is responsible for the examination and approval of any imported online games. Any online game operator that intends to operate imported online games shall first apply for approval on copyright registration certificate from the relevant local branch of the Copyright Administration and then pre-approval from GAPP (currently NAPP).

On 30 August 2018, eight PRC regulatory authorities at national government level, including the National Administration of Press and Publication and the Ministry of Education, released the Implementation Programme. As part of the plan to prevent myopia among children, the Implementation Programme plans to regulate the number of new online games and restrict the amount of time children spend playing on electronic devices.

On 11 October 2018, the General Office of the State Council promulgated the Implementation Scheme of Improvement and Promotion of Consumption Mechanism (2018-2020) (完善促進消費體制機制實施方案(2018-2020)), which expressly calls for developing digital cultural content such as digital video and audio, animation and games and online literature, promoting transformation and upgrading of online games, and regulating development, publishing and operation of online games.

In accordance with "the Notice on adjustment to the scope and further standardise examination and approval of Network Culture Operating Permit" promulgated by Ministry of Culture and Tourism (文化和旅遊部關於調整<網絡文化經營許可證>審批範進一步規範審批工作的通知) on 14 May 2019, MOCT shall no longer be responsible for the management of online games industry. Up to now, there are no clear provisions in laws and regulations on which government authority shall undertake the responsibility after the MOCT, and whether it is still required to obtain any license.

On 6 November 2019, the MOCT promulgated the Circular on Management Measure of Game and Entertainment Equipment (文化和旅遊部關於印發遊戲遊藝設備管理辦法的通知) ("**Circular 129**"), which became effective on 1 January 2020, and replaced the Circular of the Ministry of Culture on Permitting Domestic and Foreign-invested Enterprises to Engage in the Production and Sales of Game and Entertainment Equipment (文化部關於允許內外資企業從事遊戲遊藝設備生產和銷售的通知) ("**Circular 576**"). Under Circular 129, enterprises that produce game and entertainment equipment shall obtain approval from the provincial-level cultural and tourism administration. Once approved, the local cultural and tourism administration shall issue a "game and entertainment equipment electronic identification" to such enterprises.

Regulations on Web-based Games

In general, Circular 13 include web-based games within the definition of online games. Prior to the promulgation of Circular 13, both GAPP and MOC attempted to regulate the operation and operators of MMORPGs, although there was no specific regulation or policy that included web-based games as online games. However, due to the growing popularity of social and web-based games, these games are coming under increasing scrutiny with efforts being made to limit the role and impact of foreign companies in this sector. GAPP has indicated that social and web-based games should be regulated similarly to other online games.

Regulations on Virtual Currency

On 15 February 2007, MOC, PBOC and other relevant government authorities jointly issued the Notice on the Reinforcement of the Administration of Cybercafe and Online Games (關於進一步加強網吧及網絡遊戲管理工作的通知) ("**Cybercafe Notice**"). Under the Cybercafe Notice, PBOC is directed to strengthen the administration of virtual currency in online games to avoid any adverse impact on the real economic and financial systems. The Cybercafe Notice provides that the total amount of virtual currency issued by online game operators and the amount purchased by individual users should be strictly limited, with a strict and clear division between virtual transactions and real eCommerce transactions. This Cybercafe Notice also provides that (i) virtual currency should only be used to purchase virtual items provided in the online games by the online game operator; (ii) if the customers would like to redeem the virtual currency for legal currency, the amount so redeemed shall not exceed the original purchase amount; and (iii) the activity of buying and reselling virtual currency for a profit is strictly prohibited.

On 4 June 2009, MOC and MOFCOM jointly issued the Virtual Currency Notice. Virtual currency is broadly defined in the Virtual Currency Notice as a type of virtual exchange instrument issued by Internet game operation enterprises, purchased directly or indirectly by the game user by exchanging legal currency at a certain exchange rate, saved outside the game programmes, stored in servers provided by the Internet game operation enterprises in electronic record format and represented by specific numeric units. Virtual currency is used to exchange Internet game services provided by the issuing enterprise for a designated extent and time, and is represented by several forms, such as prepaid game cards, prepaid amounts or Internet game points. Game props, which are virtual items or equipment obtained from playing

online games, are excluded from the definition of virtual currency. The Virtual Currency Notice specifically states that game props should not be confused with virtual currency and that MOC, jointly with other authorities, will issue separate rules to govern them.

The Virtual Currency Notice divides the virtual currency business into (i) enterprise engaging in virtual currency issuing service, which is an online game operating enterprise engaged in the issuance and provide of virtual currency use service and (ii) enterprise engaging in virtual currency trading service, which is an enterprise providing a trading platform between the users in respect of the virtual currency. Pursuant to the Virtual Currency Notice, virtual currency may not be used to pay for any services outside of the online game realm. The Virtual Currency Notice prohibits online game operators from awarding game props or virtual currency through lucky draws or lotteries that require users to first contribute cash or virtual currency. The Virtual Currency Notice also prohibits a single enterprise from operating both virtual currency issuing services and virtual currency trading services.

Regulations on Anti-fatigue System and Real-Name Registration System

On 15 April 2007, MIIT, GAPP, the Ministry of Education and five other government authorities jointly issued the Notice on the Implementation of Online Game Anti-fatigue System to Protect the Physical and Psychological Health of Minors (關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知) ("**Anti-fatigue Notice**"). Pursuant to the Anti-fatigue Notice, online game operators are required to install an "anti-fatigue system" that discourages game players under 18 years of age from playing games for more than five hours per day. Under such anti-fatigue system, three hours or less of accumulative play by minors is considered to be "healthy", three to five hours to be "fatiguing", and five hours or more to be "unhealthy". Game operators are required to reduce the value of in-game benefits to a game player by half if the player has reached the "fatiguing" level, and to zero for the "unhealthy" level. To identify whether a game player is a minor and thus subject to the anti-fatigue system, online game operators must also use a real-name registration system.

On 1 July 2011, the GAPP, the Ministry of Education, MPS, MIIT and four other governmental authorities issued the Notice on Implementing the Verification of Real-name Registration for the Anti-Fatigue System of Online Games (關於啟動網絡遊戲防沉迷實名驗證工作的通知) ("**Real-Name Verification Notice**"). Pursuant to the Real-Name Verification Notice, starting from 1 October 2011, real-name verification for online game (excluding mobile online games) anti-fatigue systems shall be launched nationwide and the National Center for Citizen's Identification Card Number Search Service ("**ID Card Search Center**"), an affiliate of MPS, is responsible for the real-name verification for online game anti-fatigue systems. The ID Card Search Center shall verify the identification information reported by online game operators in a timely manner and effectively in accordance with the Procedures for Real-Name Verification for Online Game Anti-fatigue System (網絡遊戲防沉迷實名驗證流程). Online game operators shall be responsible for the recognition of real-name registration information of users, report any user identification information that needs to be verified and include users who have been determined to have provided fake identification information to the online game anti-fatigue system by real-name verification. The general office of SAPPRFT promulgated the Notice on Further Implementing the Verification of Real-name Registration for the Anti-Fatigue System of Online Games (關於深入開展網絡遊戲防沉迷實名驗證工作的通知) on 25 July 2014, further strengthening the implementation of the anti-fatigue system and the real-name registration system provided under the Real-Name Verification Notice. On 25 October 2019, NAPP promulgated the Circular of the National Press and Publication Administration on Preventing Minors from Online Game Addictions (國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知) effective on the same day, which requires that online game enterprises shall strictly control the time slot, duration and paid services provided for minors, and specifies that online game enterprises shall not provide game services in any form for new users without real-name registration commencing from 25 October 2019, and online game enterprises must require all their existing users to complete real-name registration and stop providing game services for users who have not completed real name registration within two months after the foregoing circular took effect.

REGULATIONS ON INTERNET VALUE-ADDED SERVICES

Regulations on Instant Messaging

Pursuant to the currently effective Catalogue of Telecommunications Business, IM services falls within the category of information service business. IM services through Internet shall be provided by an ICP operator holding an ICP Licence.

Regulations on Internet Bulletin Board Services, Internet Post Comments, Internet Chat Group Services and Internet Public Account Services

Microblog or other SNS activities provided by an ICP operator are usually regarded as a type of BBS service.

On 7 March 2001, MIIT issued a Notice on Further Strengthening Administrative Regulation on Internet Information Bulletin Board Services (關於進一步做好互聯網信息服務電子公告服務審批管理工作的通知) ("**BBS Notice**"). However, the special examination and approval or the record-filing of the Internet electronic bulletin board services has been canceled by Decision of the State Council on the Fifth Batch of Administrative Examination and Approval Items to be Canceled and Delegated to Lower Administrative Levels (國務院關於第五批取消和下放管理層級行政審批項目的決定) on 4 July 2010. Nevertheless, where the BBS service provided by the ICP operator involves any Internet cultural activities, such as online contests, online music, a Network Culture Operating Permit is also required.

On 25 August 2017, CAC issued the Management Rules on the Internet Post Comments Services (互聯網跟帖評論服務管理規定), which became effective on 1 October 2017. These rules require the internet post comments service providers to strengthen the management on the registrant and to establish an examination system upon the contents of the post comments. For any illegal contents published on the internet platform, internet post comments service providers shall immediately take measures such as warning, rejecting to release, deleting the information, restricting functions, suspending update and closing the account, and keep the relevant records. Internet post comments service providers shall establish a hierarchical management system, the registrant who is seriously dishonest shall be named on the blacklist and shall be prohibited from using the post comments service even by re-registration. In addition, internet post comments service providers shall establish a public complaint and report system and timely accept and investigate the public complaints and reports.

On 25 August 2017, CAC issued the Management Rules on the Internet Forum and Community Services (互聯網論壇社區服務管理規定), which came into effect on 1 October 2017. The rules require the internet forum and community service providers to strengthen the administration of the information published by their users. By following the principal of using real name at the background and volunteering to do so at the foreground, internet forum and community service providers shall request users to register accounts upon passing their real identity information verification and file as well as regularly check and verify the real identity information of the initiators and administrators of sections.

On 7 September 2017, CAC issued the Management Rules on the Internet Groups (互聯網群組信息服務管理規定), which came into effect on 8 October 2017. These rules aim to tighten the control of IM groups by imposing Internet chat service providers the duty to verify the identities of their users and keep a blog of groups chats for no less than six months. These rules also require Internet chat service providers to establish a credit system, and to provide group chat services to users in accordance to their credit ratings. In addition, founders and managers of the Internet chat group should bear responsibility for the management of the group. Groups that release illegal information like pornographic, violent, terrorism-related or false information may be warned, be suspended use of group chat services or be closed down, and the group's founders or managers will be downgraded, or suspended his/her management power of groups or his/her ability to set up new groups, named on blacklist.

On 7 September 2017, CAC issued the Management Rules on the Online Public Accounts (互聯網用戶公眾賬號信息服務管理規定), which came into effect on 8 October 2017 and was amended on 22 February 2021. "Online public account service platform" refers to those provide registration and operation of online public accounts, release of information content and technical support services for internet users. The amended Management Rules on the Online Public Accounts strengthens the responsibility of the online public account service platforms, including that (i) they shall verify the legality and compliance of the names, avatars or introduction, etc. of the online public accounts registered by internet users, and shall suspend the provision of services for the users and notify such registrants to make corrections within a prescribed time limit in case of any inconsistency between such account name, avatar or introduction and their real identity information, especially any unauthorised use of the names of such organisations as political party and government authorities, (ii) they shall require the registrants to provide their professional background and relevant materials such as qualifications or licenses and conduct necessary verification with regard to any application for registration for engaging in the production of information content in the fields of economy, education, medical care and health, justice, etc., (iii) they shall establish a mechanism for monitoring and evaluating online public accounts and prevent data falsification in respect of the number of subscribers, user attention, content click-through rate and the number of comments forwarded, etc., and (iv) without the informed consent of an Internet user, they shall not force in any way the Internet user to subscribe or follow the online public accounts.

Regulations on Mobile Applications

On 28 June 2016, CAC issued the Management Rules on Mobile Internet Application Information Services (移動互聯網應用程序信息服務管理規定) ("**Mobile Application Rules**"), which became effective on 1 August 2016. Pursuant to these rules a mobile internet application refers to an application software that runs on mobile smart devices providing information services after being pre-installed, downloaded or embedded through other means. Mobile internet application providers refer to the owners or operators of mobile internet applications. Internet application stores refer to platforms which provide services related to online browsing, searching and downloading of application software and releasing of development tools and products through the internet. Pursuant to the Mobile Application Rules, an internet application program provider must verify a user's mobile phone number and other identity information under the principle of mandatory real name registration at the back-office end and voluntary real name display at the front office end. An internet application provider must not enable functions that can collect a user's geographical location information, access user's contact list, activate the camera or recorder of the user's mobile smart device or other functions irrelevant to its services, nor is it allowed to conduct bundle installations of irrelevant application programs, unless it has clearly indicated to the user and obtained the user's consent on such functions and application programs. In respect of an internet application store service provider, the Mobile Application Rules require that, among others, it must file a record with the local authority within 30 days after it rolls out the internet application store service online. It must also examine the authenticity, security and legality of internet application providers on its platform, establish a system to monitor application providers' credit and file a record of such information with relevant governmental authorities.

On 16 December 2016, MIIT promulgated the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals (移動智能終端應用軟件預置和分發管理暫行規定), which came into effect on 1 July 2017. The Interim Measures aim to enhance the administration of mobile applications, and require, among others, that mobile phone manufacturers and internet information service providers must ensure that a mobile applications, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user on a convenient basis, unless it is a basic function software, which refers to a software that supports the normal functioning of the hardware and operating system of a mobile smart device.

Regulations on Internet News Publication and Dissemination

On 7 November 2000, SCIO and MIIT jointly promulgated the Provisional Measures for Administration of Internet Websites Carrying on the News Publication Business (互聯網站從事登載新聞業務管理暫行規定) ("**Internet News Measures**"). These measures require an ICP operator, other than a government authorised news unit/organisation, to obtain the approval from SCIO to publish news on its website or disseminate news through the Internet. Furthermore, any disseminated news is required to be obtained from government-approved sources based on contracts between the ICP operator and these sources or produced by the ICP operators themselves. The copies of such contracts must be filed with the news office of the provincial-level government.

On 2 May 2017, CAC issued the Provisions on the Administration of Internet News Information Services (互聯網新聞信息服務管理規定) ("**Internet News Provisions**"), which became effective on 1 June 2017 and replaced the Internet News Provisions jointly issued by SCIO and MIIT on 25 September 2005. Pursuant to the Internet News Provisions, anyone who intends to provide the public with news information services on the Internet via Internet websites, applications, forums, blogs, micro-blogs, official accounts, instant message tools, network-based broadcast, shall obtain the Internet News Information Service Licence from CAC before they can provide the approved service and file application to CAC or its local branch for approval if it intends to change its principal, chief editor, governing body, equity structure or any other major item that will affect the licensing conditions. Where an Internet news information service provider intends to adopt new technologies, and adjust or introduce new application functions which are of a media opinion nature or able to result in social mobilization, it shall report the same to CAC or its local counterpart at provincial level for the purpose of safety evaluation of its Internet news information services. The CAC and local cyberspace administrators shall establish a supervisory and administrative system that combines routine inspections and regular ones and set up credit records for Internet news information service networks, and establish a blacklist system for dishonest service providers and an interview system.

On 30 October 2017, CAC issued the Provisions on the Administration of the Safety Evaluation of New Technologies and Applications for Internet News Information Services (互聯網新聞信息服務新技術新應用安全評估管理規定) ("**Safety Evaluation Provisions**"), which became effective on 1 December 2017. Pursuant to the Safety Evaluation Provisions, the Internet news information service provider shall establish and improve the management system for the evaluation of the safety of new technologies and applications, organise safety evaluation, provide necessary cooperation with CAC for the safety evaluation and complete the rectification in a timely manner if there is any safety risk. If the Internet news information service provider intends to adopt new technologies or add functions that have the attribute of news and public opinion or the social mobilisation ability, or the change of new technologies or new application functions in respect of user scale, function attribute, technical realization mode or basic resource allocation result in the significant change in the attribute of news and public opinion or the social mobilisation ability, it shall organise the relevant safety evaluation of such technologies and applications, prepare a safety evaluation report in writing and be liable for the evaluation results.

Regulations on Internet Medical Care Information Services

Online medical advertisements shall comply with the Measures for the Administration of Medical Advertisements (醫療廣告管理辦法) jointly promulgated by Ministry of Health and SAIC on 27 September 1993 and amended on 10 November 2006. The advertising agent or advertising publisher shall examine the medical advertisement examination certificate of the medical institution that needs to publish the medical advertisement and verify the contents of the advertisement before publishing the medical advertisement.

On 27 July 2017, the SAPPRFT issued the Notice on Strengthening the Management on Medicine Advertisement Involved in the Internet Audio and Video Programme (國家新聞出版廣電總局辦公廳關於加強網絡視聽節目領域涉醫藥廣告管理的通知) to require the internet audio and video programme service providers to rigorously scrutinise the advertisements and programmes on medical products and resolutely resist deceptive and illegal advertisements.

Regulations on Online Music

On 20 November 2006, MOC issued Several Suggestions of the Ministry of Culture on the Development and Administration of Internet Music (關於網絡音樂發展和管理的若干意見) ("**Suggestions**"), which became effective on the same date. The Suggestions, among other things, reiterate the requirement for an ICP operator to obtain the Network Culture Operating Permit to carry out any business relating to Internet music products. In addition, foreign investors are prohibited from operating Internet culture businesses. The Suggestions further provide that, any online music that will be circulated within the PRC is required to (i) for foreign music, be approved for importation by MOC and (ii) for domestic music, be filed with MOC. Imported online music is required to be filed for content review by MOC before being circulated online.

In October 2015, the MOC promulgated the Notice on Further Strengthening and Improving the Administration of Content Review of Online Music (關於進一步加強和改進網絡音樂內容管理工作的通知), which became effective on 1 January 2016. According to this notice, an online music operator is required to review the content of music products by itself before making the products available on its platform, and the administrative department of culture is responsible for supervising the implementation of such self-review. To comply with the self-review requirement, an online music operator must file information regarding its self-review regime, including personnel deployment, duty allocation, self-review protocol and others with the competent administrative department of culture. Furthermore, it must file a summary of its self-review result for the preceding quarter on a quarterly basis.

In addition, MOC has taken great efforts to crack down on music websites, which carry out an online music operation without approval since 2010. The Ministry of Culture of People's Republic of China promulgated a blacklist of Internet animation products (網絡動漫作品黑名單) and a blacklist of music products (網絡音樂作品黑名單) in June and August 2015, respectively. Pursuant to these two blacklists, no one may provide the specified 120 music and 38 Internet animations.

Regulations on Online Audio/Video Broadcasting

On 13 April 2005, the State Council announced Several Decisions on Investment by Non-state-owned Companies in Culture-related Business in China (國務院關於非公有資本進入文化產業的若干決定). These decisions encourage and support non-state-owned companies to enter into certain culture-related business in the PRC, subject to restrictions and prohibitions for investment in audio or video broadcasting, website news and certain other businesses by non-state-owned companies. These decisions authorise SARFT, MOC and GAPP to adopt detailed implementation rules according to these decisions.

On 20 December 2007, SARFT and MIIT jointly issued the Rules for the Administration of Internet Audio and Video Programme Services (互聯網視聽節目服務管理規定) ("**Circular 56**"), as amended on 28 August 2015. Circular 56 requires that Internet (including mobile network) audio and video service

providers must obtain the Information Network Audio and Video Programme Dissemination Licence from SARFT. Furthermore, Circular 56 requires all Internet audio or video service providers to be either wholly state-owned or state-controlled. According to relevant official answers to press questions published on SARFT's website dated 3 February 2008, officials from SARFT and MIIT clarified that Internet audio or video service providers (foreign-invested websites not included) that have been operating lawfully prior to the issuance of Circular 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to Internet audio or video service providers established after Circular 56 was issued. Such policies have been reflected in the application procedures for Audio and Video Programme Dissemination Licence.

On 28 December 2007, SARFT issued the Notice on Strengthening the Administration of TV Dramas and Films Transmitted via the Internet (關於加強互聯網傳播影視劇管理的通知) ("**Notice on Dramas and Films**"). According to the Notice on Dramas and Films, films or drama programmes without the corresponding Permit for Issuance of TV Dramas, the Permit for Public Projection of Films, the Permit for Issuance of Cartoons and/or the Permit for Public Projection of Academic Literature Movies and TV Plays (as applicable) are not allowed to be published or disseminated online. In addition, an online audio/radio service provider must obtain authorisation from the copyright owners of the film and drama programmes regarding the online dissemination.

On 31 March 2009, SARFT issued the Notice on Strengthening the Administration on Content of Internet Audio/Visual Programmes (關於加強互聯網視聽節目內容管理的通知), which requires that Internet audio and video service providers must edit or delete programmes that contain illegal content and improve their programme content administration systems.

On 15 September 2009, SARFT issued the Notice on Issues Concerning the Administration of Internet Audio-Video Programme Service Permits (關於互聯網視聽節目服務許可證管理有關問題的通知). According to this notice, any website or individual that has not obtained an Information Network Audio and Video Programme Dissemination Licence may not provide audio/video programme services via the Internet. The administrative departments in charge of radio, film and television at all levels shall order the websites and individuals that provide Internet-based audio/video programme services without having obtained the Information Network Audio and Video Programme Dissemination Licences to immediately cease such unauthorised services.

On 10 March 2017, SARFT issued the Internet Audio and Video Programme Services Categories (Provisional) (互聯網視聽節目服務業務分類目錄(試行)) ("**Categories**"), which revised the previous version issued on 17 March 2010, and classified Internet audio and video programmes into four categories.

On 6 April 2011, the GAPP and General Administration of Customs jointly issued the "Administrative Measures for Importing Audio and Video Products" (音像製品進口管理辦法) and repealed the old Administrative Measures for Importing Audio and Video Products, which had been effective since 1 June 2002. According to these Measures, the government implemented a licensing system for the import of Audio and video products, and the importer of audio and video products shall report to the GAPP for content examination before import and may import audio and video products only after obtaining a licence upon approval.

On 16 December 2016, the SAPPRFT issued the Circular on Strengthening the Administration of Video and Audio Programmes on microblog, *Weixin* and other Social Media Platforms (關於加強微博、微信等網絡社交平台傳播視聽節目管理的通知). Pursuant to this circular, any network operators that provide online audio/video programme service through social media platforms such as microblog or *Weixin* must obtain an Information Network Audio and Video Programme Dissemination Licence. For those organisations and individuals that do not hold such a license, the hosting social networking platform shall be responsible for supervising the content of the posted programmes, and the scope of the programmes must not exceed the scope stated on the platform's Information Network Audio and Video Programme

Dissemination Licence. In addition, film and TV dramas disseminated on social media platforms are required to obtain a license for public airing, and social media platforms are not allowed to repost user-generated video or audio programmes featuring political news.

The PRC government has also promulgated a series of special regulatory measures governing live-streaming services. On 2 September 2016, the SAPPRFT issued the Circular on Strengthening Administration of Live-streaming Service of Network Audio/Video Programmes (關於加強網絡視聽節目直播服務管理有關問題的通知) ("**Circular 172**"). Pursuant to Circular 172, any entity that intends to engage in live audio/video broadcasting of major political, military, economic, social, cultural or sport events or activities, or live audio/video broadcasting of general social or cultural groups activities, general sporting events or other organisational events must obtain an Information Network Audio and Video Programme Dissemination Licence with the permitted operation scope covering the above business activities. Any entity or individual without qualification is prohibited from broadcasting live audio/radio programmes on news, variety show, sports, interviews, commentary or other forms of programmes through online live-streaming platform or online live broadcasting booth, nor are they permitted to start a live broadcasting channel for any audio or radio programmes. On 4 November 2016, CAC promulgated the Provisions on the Administration of Online Live-streaming Services (互聯網直播服務管理規定) ("**Live-streaming Provisions**"), which became effective on 1 December 2016. Pursuant to the Live-streaming Provisions, Internet live-streaming service refers to continuous publishing of real-time information to the public on internet by means of video, audio, graphics, text or other forms, and an Internet live-streaming service provider refers to an operator of the platform providing internet live-streaming service. In accordance with the Live-streaming Provisions, an Internet live-streaming service provider must verify and register the identity information of publishers of live-streaming programmes and users on its platform, and file the identity information of the publishers with the local governmental authority for record. Any Internet live-streaming service provider engaging in news service must obtain Internet news information service qualification and operate within the permitted scope of such qualification. On 2 December 2016, MOC promulgated the Provisions on the Administration of Business Activities of Online Performance (網絡表演經營活動管理辦法) ("**Online Performance Provisions**"), which took effect on 1 January 2017. Pursuant to the Online Performance Provisions, an operator that intends to conduct online performance platform business must obtain a Network Culture Operation Licence with permitted business scope covering "online performance" as issued by the competent provincial cultural administration department. The Online Performance Administration Measures further provide that the operator must enter into a contract with the performer who intends to open an online performance channel to specify rights and obligations of both parties, and require the performer to conduct real name registration by virtue of his valid identification documents, which shall be duly verified by the operator. On 8 August 2018, National Working Group of Attacking Pornography and Illegal Publications, the MIIT, the MPS, the MOCT, the NTRA, the CAC jointly promulgated the Circular on Tightening the Administration of Online Live Services (關於加強網絡直播服務管理工作的通知), pursuant to which, a company that operates live-stream service shall make the filing to the local public security authority within 30 days of their live services being launched.

On 9 February 2021, the CAC, the National Working Group of Attacking Pornography and Illegal Publications, the MIIT, the MPS, the MOCT, the SAMR, the NRTA jointly promulgated the Circular on Issuing the Guiding Opinions on Strengthening Standardised Management of Online Live Streaming (關於加強網絡直播規範管理工作的指導意見). The guiding opinions emphasise that online live-streaming platforms are required to: (i) establish and improve their system for standardised classified and hierarchical management of live-streaming accounts, the management rules for online rewards services, and the management system for sales through live-streaming; (ii) set limits on the maximum amount of rewards accepted by a live streamer during a single live stream, the live streaming popularity, and other aspects; (iii) set a reasonable upper limit for the value of a single virtual consumer product and the amount of a single reward; (iv) remind users of their accumulated amount of rewards in a single day triggering the corresponding threshold; and (v) set a cooling-off period for giving rewards and a period for delay in receipt of the rewards when necessary.

On 9 January 2019, China Netcasting Services Association (中國網絡視聽節目服務協會) issued the Specification for Network Short Video Platform Management (網絡短視頻平台管理規範) and Detailed Rules for Content Censorship Criteria of Network Short Video (網絡短視頻內容審核標準細則) (collectively "**Short Video Rules**"). Pursuant to the Short Video Rules, Network Short Video Platforms shall: (i) obtain relevant qualifications stipulated in the laws and regulations, such as the "Information Network Audio and Video Programme Dissemination Licence" (AVSP), and conduct business strictly within the scope of business stipulated in the license; (ii) actively invite news media, government, army and other institutions to create accounts; (iii) establish the chief editor's content management responsibility system; (iv) implement the system of "censor before broadcast"; (v) establish censor team according to its business scale; and (vi) implement a system of accountability in case of non-compliance.

On 11 November 2019, CAC issued the Management Rules on the Online Audio and Video Information Service (網絡音視頻信息服務管理規定). These rules apply to the online audio and video information service, which is defined as providing audio and video information production, release or dissemination services to the public through online platforms such as online websites or applications and programs. Online audio and video information service providers shall be responsible for the information content security and shall verify the identities of their users. Further, these rules require the online audio and video information service providers to tighten their management over the audio and video information released by their users, deploy verification technologies to detect illegal or fake audio and video information. If the online audio and video information service providers find that the users produce, release or disseminate any illegal information, they shall stop transmitting such information in accordance with laws and the stipulations with their users, take actions such as eliminating the information, prevent the information from distribution, keep relevant records and report to the cyberspace administrations, culture and tourism departments and radio and television departments.

Regulations on Production and Operation of Radio and TV Programmes

On 19 July 2004, SARFT promulgated the Administrative Measures on the Production and Operation of Radio and Television Programmes (廣播電視節目製作經營管理規定) ("**Radio and TV Programmes Measures**"), which became effective on 20 August 2004 and were amended on 28 August 2015, 31 October 2018 and 29 October 2020. These measures provide that anyone who intends to produce or operate radio or television programmes must first obtain the Permit for Production and Operation of Radio and TV Programmes from SARFT or its local branches. Applicants for this permit must meet several criteria. Entities with the Permit for Production and Operation of Radio and TV Programmes must conduct their business operations in strict compliance with the approved scope of production and operation provided under the permit. Furthermore, entities other than radio and TV stations are strictly prohibited from producing radio and TV programmes covering contemporary political news or similar subjects and topics.

On 6 July 2012, SARFT and CAC jointly issued the Notice on Further Strengthening the Administration of Internet Dramas, Micro-Films, and Other Internet Audio/Video Programmes (關於進一步加強網絡劇、微電影等網絡視聽節目管理的通知). Pursuant to this notice, Internet companies offering audio/video programming services must review the contents of Internet dramas, micro-films and other Internet audio/video programmes before broadcasting in accordance with the principle of "you provide Internet services, you take responsibility for it". The notice also requires Internet audio/video programming industry associations to perform industry self-regulation functions and government departments shall regulate market access to and strengthen the exit mechanism of the Internet audio/video programming service in accordance with the relevant laws and regulations.

On 2 January 2014, the SAPPRFT issued the Supplementary Notice on Further Improving the Administration of Internet Dramas, Micro-Films, and Other Internet Audio/Video Programmes (關於進一步完善網絡劇、微電影等網絡視聽節目管理的補充通知). This Notice further emphasises that internet audio/video programme service providers must review the contents of the internet audio/video programmes before broadcasting, and shall not broadcast any internet dramas, micro-films or other internet audio/video programmes, which the manufacturers have not obtained the Permit for Production and Operation of Radio and TV Programmes.

Regulations on Online Trading

On 12 April 2011, MOFCOM promulgated the Service Norms for Third-Party Electronic Commerce Trading Platform (第三方廠商電子商務交易平台服務規範) ("**Service Norms**"), which was amended on 18 August 2016. The Service Norms recommend that platform operators supervise online merchandisers in the following aspects: member registration, contract standardisation, information management, order maintenance, error trading handling, intellectual property protection and prohibited acts. The Service Norms propose that the platform requires online merchandisers to establish and carry out the reputation system with respect to various commercial commodities by contracts or other methods. It should be noted that all technical contents of the Service Norms are recommended approaches.

On 26 January 2014, SAIC promulgated the Administrative Measures for the Online Trading (網絡交易管理辦法) ("**Online Trading Measures**"), which became effective on 15 March 2014, to replace the Interim Measures for the Trading of Commodities and Services through the Internet (網絡商品交易及有關服務行為管理暫行辦法) dated 1 July 2010. Under the Online Trading Measures, each online trading platform operator is obligated to, among others, (i) examine, verify and record the real identification of merchandisers using the platform; (ii) enter into an agreement with each merchandiser using the platform; (iii) set up platform rules and regulations; (iv) inspect and supervise the trading information and activities on the platform; (v) take measures to protect trademark, enterprise name use right and other proprietary rights; (vi) examine, record and preserve the products and service information as published in such platform; and (vii) comply with other requirements and co-operate with SAIC or its local branch for monitoring illegal online trading activities and protecting consumers' rights. Furthermore, operators of the third-party trading platforms are required to distinguish the in-house commodities and services from those operated by other operators on the platform by marks in an obvious way to avoid causing misleading perceptions to the consumers. The Online Trading Measures also encourage operators of third-party trading platforms to set earnest money in favor of consumers' rights and interests. On 15 March 2021, SARM issued the Measures for the Supervision and Administration of Online Transactions (網絡交易監督管理辦法) ("**Measures on Online Transactions**"), which will become effective on 1 May 2021 and will replace the Online Trading Measures. The Measures on Online Transactions further emphasises that e-commerce platform operators are required to establish a system to monitor products and services provided by the merchants, and shall submit the identity information of the merchants to the local branches of the SAMR.

On 31 August 2018, the Standing Committee of the National People's Congress promulgated the E-commerce Law (電子商務法) ("**E-commerce Law**"), which became effective on 1 January 2019. The E-commerce Law clarifies obligations for the operators of e-commerce platforms. For example, among other things, an operator of an e-commerce platform shall (i) require business operators that apply to sell products or provide services on its platform to submit truthful information, including the identities, addresses, contacts and licenses; (ii) verify and examine such information; (iii) establish registration archives and verify, examine and update such information on a regular basis; (iv) submit identification information of business operators on its platform to market regulatory authorities and remind business operators that have not registered with market regulatory authorities to complete the relevant registration; (v) submit identities and tax information of the business operators on its platform to tax authorities and remind business operators that have not registered with tax authorities to complete the relevant tax registration; (vi) conspicuously display the terms of platform service agreements, transaction rules or links to such information on the homepage of the platform, and ensure that business operators and consumers are able to read and download such information conveniently; and (vii) restrain from deleting any comments made by consumers on any products sold or service provided on its platform. Where an e-commerce platform operator fails to take necessary measures when it knows or should have known that the products or services provided by business operators on its platform do not meet the requirements regarding personal or property safety, or commits any other acts that impair the lawful rights and interests of consumers, such platform operator shall be held jointly liable with the business operators on its platform. Where an e-commerce platform operator fails to verify and examine the qualifications of business operators on its platform or fails to fulfill its obligation to assure the safety of consumers with respect to products or services affecting consumers' life and health, which results in damage to consumers, such platform operator shall take corresponding liability. Where an e-commerce platform operator knows

or should have known that a business operator on its platform has infringed any intellectual property right of other third parties, it shall take necessary measures, such as deleting or blocking the relevant information, disabling the relevant links, and terminating the relevant transactions and services; otherwise, such platform operator shall be held jointly liable with the infringing party.

In November 2018, the MOFCOM, the NDRC, the MOF, the General Administration of Customs, SAT and SAMR jointly issued the Circular on Improving the Regulation of Cross-border Ecommerce Retail Imports (關於完善跨境電子商務零售進口監管有關工作的通知) and the MOF, the General Administration of Customs and SAT jointly promulgated the Circular on Improving Tax Policies for Cross-border E-commerce Retail Imports (關於完善跨境電子商務零售進口税收政策的通知). In December 2019, 13 authorities including the MOF, the General Administration of Customs and NDRC issued Circular on Adjusting and Expanding the Commodities List of Cross-border Ecommerce Retail Imports (關於調整擴大跨境電子商務零售進口商品清單的公告). In March 2020, the General Administration of Customs issued the Circular on Regulatory Issues Regarding Returns on Cross-border Ecommerce Retail Importing Goods (海關總署關於跨境電子商務零售進口商品退貨有關監管事宜的公告). Pursuant to these circulars, a cross-border e-commerce enterprise shall entrust an enterprise registered with the customs to make truthful custom declaration, take the responsibility for the protection of consumers' rights and interests and fulfill the obligation to provide risk notice to the customers.

Regulations on Online Payment Services

On 14 June 2010, PBOC promulgated the Administration Measures on Non-financial Institutions Payment Services (非金融機構支付服務管理辦法) ("**Payment Measures**"), which became effective on 1 September 2010, as further amended on 29 April 2020. On 1 December 2010, PBOC promulgated the Implementing Rules for the Administration Measures on Non-financial Institutions Payment Services (非金融機構支付服務管理辦法實施細則), which was amended on 2 June 2020 and 1 January 2021 respectively. Pursuant to the Payment Measures and their implementing rules, non-financial institutions which intend to engage in online payment services, shall satisfy various requirements in connection with registered capital, number of qualified professionals, anti-money laundering measures, corporate structure, internal control and risk management, and shall maintain full compliance records for the last three years. The Payment Measures require all non-financial institutions engaged in online payment services to obtain a Payment Service Licence from PBOC within a one-year grace period commencing from 1 September 2010. Failure to obtain the Payment Service Licence will lead to the termination of the right to provide online payment services.

On 16 June 2011, the PBOC promulgated the Provisions on the Administration of Testing and Certification of the Payment Service Business Systems of Non-financial Institutions (非金融機構支付服務業務系統檢測認證管理規定), which require that non-financial institutions shall have their business systems tested and certified within six months before applying for the payment service permits. Non-financial institutions must have their business systems tested and certified in a comprehensive manner at least once every three years according to their needs for payment business development and safety management.

On 19 January 2021, PBOC promulgated the Measures for the Depositing of Clients' Reserves of Non-bank Payment Institutions (非銀行支付機構客戶備付金存管辦法), which became effective on 1 March 2021 and replaced the Measures on the Deposit and Management of Customer Excess Reserves by Payment Institutions (支付機構客戶備付金存管辦法). The Measures on the Deposit and Management of Customer Excess Reserves by Non-bank Payment Institutions strengthens the regulation over deposit and application of customer excess reserves and to enhance account security and customer rights. According to these measures, the advance payment received by the payment institutions from the customers for deposits shall constitute "customer excess reserves" and shall be fully deposited into a special account opened with PBOC or a qualified commercial banking financial institution or PBOC, which has entered into an agreement with the payment institution for such deposit purpose. These measures further require that the reserves can only be used for the payment service entrusted by the customer and other circumstances as prescribed by these Measures, and the reserves cannot be misappropriated, occupied or borrowed.

On 29 April 2019, SAFE promulgated the Administrative Measures for the Foreign Exchange Services of Payment Institutions (支付機構外匯業務管理辦法), which repealed the SAFE Notice on Pilot Services of Cross-border Foreign Exchange Payment by Payment Institutions (國家外匯管理局關於開展支付機構跨境外匯支付業務試點的通知). The measures allow the payment institutions to provide small, quick and convenient electronic payment services and carry out foreign exchange business for domestic individuals in relation to cross-border shopping, overseas study, tourism and other items. The measures further require the payment institutions to establish effective risk control policies and systems, improve their management on market players and enhance the verification of the transactions in terms of the authenticity and legality.

On 18 July 2015, the PBOC, the MIIT, the MPS, the MOF, the SAIC, the Legislative Affairs Office, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission and the CAC jointly released the Guiding Opinions on Promoting the Healthy Development of Internet Finance (關於促進互聯網金融健康發展的指導意見). Pursuant to these guiding opinions, the PBOC is responsible for the administration and supervision for Internet payment. It is required that service information be fully disclosed to clients, clients be clearly reminded of business risks, and the nature and functions of payment services intermediaries shall not be exaggerated.

In December 2015, the PBOC promulgated the Administrative Measures on the Online Payment Business of Non-Bank Payment Institutions (非銀行支付機構網絡支付業務管理辦法) ("**Measures on Online Payment Business**"). The Measures on Online Payment Business requires payment institutions to comply with the "Know Your Client" principle and establish a client identification mechanism. Payment institutions shall register and verify real-name and basic identification of clients that open account with them. In addition, the Measures on Online Payment Business categorises online payment accounts of individuals into three types, with each type subject to particular use of purposes and different limits on the amounts that can be paid from the accounts. Individuals that pass more verifications are entitled to open accounts that are allowed be used for more purposes and have higher caps on the amount payable through these accounts. For example, an individual client whose identity is verified by the payment institution or by a partner authorised by the payment institution face to face, or whose basic identity information is subject to multiple cross-validation by at least five legal and safe external channels in a non-face-to-face manner, may open Type-III payment accounts, the balance in which may be used for consumption, account transfers, and procurement of financial products. The accumulative amount of balance payment transactions through all payment accounts of the individual shall not exceed RMB200,000 during a year (excluding account transfers from the payment account to the client's same-name bank account). An individual client that passes the verification of basic identity information in a non-face-to-face manner through at least one legal and safe external channel and opening a payment account with the institution for the first time may open a Type-I payment account, the balance in which may be used for consumption and account transfers only. The accumulative amount of balance payment transactions through such payment account shall not exceed RMB1,000 (including account transfer from the payment account to the client's same-name bank account), from the date of the opening of the account.

On 12 April 2016, the General Office of the State Council issued the Implementing Scheme for Special Rectification of Internet Financial Risks (國務院辦公廳關於印發互聯網金融風險專項整治工作實施方案的通知), which reiterates that a non-bank payment institution must not misappropriate or possess clients' reserves, and instead it must open a reserve account with the PBOC or a qualified commercial bank. In addition, a non-bank payment institution must not use schemes to carry out inter-bank clearing business in a disguised form. Instead, a non-bank payment institution must operate inter-bank payment business through the inter-bank clearing system of the People's Bank of China or a qualified clearing institution.

On 13 January 2017, the General Office of the PBOC issued a Notice on Matters regarding Centralized Deposit and Management of Client's Reserves of Payment Institutions (關於實施支付機構客戶備付金集中存管有關事項的通知). Pursuant to the notice, commencing from 17 April 2017, a non-bank payment institution must deposit a certain percentage of the clients' reserve it collects into a special deposit account and no interest will accrue on such deposited amount. The PBOC will determine such deposit percentage for a non-bank payment institution based on the category of payment business and the risk control and compliance ratings of the non-bank payment institution. The deposit percentage ranges from 12% to 20%

for an operator of online payment business, 10% to 18% for an operator of bank card bill acceptance and clearance business and 16% to 24% for an operator of issuance and acceptance of pre-paid card business. If an entity engages in more than one type of payment businesses, the highest of the respective deposit percentages applicable to each payment business of this entity will apply.

On 4 August 2017, the Payment and Settlement Department of the PBOC issued the Circular 209. Prior to the promulgation of the Circular 209, the third-party payment institutions are directly connected to banks. Pursuant to the Circular 209, all online payment involved bank accounts conducted by non-bank payment institution should be processed by the unified platform operated by the NetsUnion Clearing Corporation ("**NetsUnion Platform**") since 30 June 2018. The banks and non-bank payment institutions are required to complete preparation of connecting to the NetsUnion Platform network and transfer of business prior to 15 October 2017.

Regulations on Financial Holding Companies

On 11 September 2020, PBOC promulgated the Decision of the State Council on Implementation of Access Management of Financial Holding Companies (國務院關於實施金融控股公司准入管理的決定) and the Provisional Administrative Measures of Financial Holding Companies (金融控股公司監督管理試行辦法), both of which became effective on the same date. Under certain circumstances, a non-financial enterprise, natural person or recognised legal person holds controlling shares in or actually controls two or more types of financial institutions, shall submit an application to the PBOC for approval to establish a financial holding company, and the PBOC will be responsible for regulating financial holding companies in accordance with the law, examining and approving the establishment, change, termination and business scope of a financial holding company. A financial holding company shall not abuse its substantive control to interfere with the normal and independent operation of the entities under its control and damage the legitimate rights and interests of such entities and the interested parties. Where a financial holding company abuses its substantive control or adopts improper intervention, thereby causing losses to an entity under its control, it shall be liable for such losses.

Regulations on Online Search Services

On 25 June 2016, the CAC promulgated the Administrative Provisions on Internet Information Search Services (互聯網信息搜索服務管理規定) ("**Search Services Provisions**"), which became effective on 1 August 2016. Pursuant to the Search Services Provisions, internet information search service refers to the service whereby users can search for information that is collected from the internet and processed by computer technology. The Search Services Provisions requires that an internet information search service provider must not publish any information or contents prohibited by law in the form of links, abstracts, snapshots, associative words, related search or recommendations or otherwise. If an internet information search service provider identifies any search results that contain any information, website or application that is prohibited by law, it must stop displaying the search results, record and report it to the relevant governmental authority. In addition, an internet information search service provider is prohibited from seeking illegitimate interest by means of unauthorised disconnection of links, or provision of search results containing false information. If an internet information search service provider engages in paid search services, it must examine and verify the qualifications of its customers of the paid search services, specify the maximum percentage of search results as paid search results on a webpage, clearly distinguish paid search results from natural search results, and notably identify the paid search information item by item.

Pursuant to the currently effective Catalogue of Telecommunications Business, the information service is categorised as a form of "value-added telecommunication services" and includes, among other things, information search and inquiry services. Therefore, online search service falls within the scope of value-added telecommunication services. An enterprise that intends to carry out the business of online search service is required to hold a valid ICP Licence, setting out that the ICP operator is permitted by the MIIT to provide Internet information services.

An online search service provides links to other websites in response to search queries. The operators of such linked websites shall be responsible for maintaining appropriate approvals, licences, permits and registrations in connection with the contents on the linked websites.

Regulations on Online Maps

In accordance with the Surveying and Mapping Law of the People's Republic of China (測繪法) ("**Surveying and Mapping Law**") issued in 1992 and revised in 2002 and 2017 respectively, Internet map service providers must use maps that have been reviewed and approved in accordance with the law.

On 26 November 2015, the State Council promulgated the Administrative Regulations on Maps (地圖管理條例), which took effect on 1 January 2016. Pursuant to the entities engaging in Internet map services shall obtain an appropriate qualification certificate for surveying and mapping in accordance with the law. In addition, according to the Administrative Rules of Surveying Qualification Certificate (測繪資質管理規定), as amended by the National Administration of Surveying, Mapping and Geo-information (which had been reformed into the Ministry of Natural Resources according to the 2018 Institutional Reform Plan) on 1 August 2014, the provision of internet map services by any non-surveying and mapping enterprise is subject to the approval of the National Administration of Surveying, Mapping and Geo-information and requires a Surveying and Mapping Qualification Certificate. Pursuant to the Notice on Further Strengthening the Administration of Internet Map Services Qualification (關於進一步加強互聯網地圖服務資質管理工作的通知) issued by the National Administration of Surveying, Mapping and Geo-information on 23 December 2011 and became effective on the same day, any entity without applying for a Surveying and Mapping Qualification Certificate for internet map services is prohibited from providing any internet map services.

Regulations on Email Services

On 20 February 2006, the MIIT promulgated the Administrative Measures on Electronic Mail Services on the Internet (互聯網電子郵件服務管理辦法), which became effective on 30 March 2006. Pursuant to these measures, an Internet email service provider shall obtain a licence for the operation of value-added telecommunications services or go through the formalities for record-filing for non-profit Internet information services. An Internet email service provider shall, 20 days prior to the commencement of use of the email servers, register the IP address of the Internet email server with the MIIT or its local branches.

Regulations on Cloud Computing Business

Pursuant to the currently effective Catalogue of Telecommunications Business (2019 Version), enterprises engaged in Internet data center (IDC) services, including Internet resource collaboration services, shall obtain a value-added telecommunication service operating licence for IDC business ("**IDC Licence**").

On 30 November 2012, MITT issued the Circular of the Ministry of Industry and Information Technology of the People's Republic of China on Further Standardising the Market Access-related Work for Businesses Concerning Internet Data Centers and Internet Service Providers (工業和信息化部關於進一步規範因特網數據中心業務和因特網接入服務業務市場准入工作的通告), which further specifies requirements on capitals, personnel, premises and facilities which applicants for IDC Licences shall meet. On 17 January 2017, MIIT issued the Circular of the Ministry of Industry and Information Technology on Clearing up and Regulating the Internet Access Service Market (工業和信息化部關於清理規範互聯網網絡接入服務市場的通知), which requires enterprises that have obtained IDC Licences prior to the implementation of the Catalog of Telecommunication Services (2015 Version) and have actually carried out the business of internet resources collaboration services or CDN business shall, before 31 March 2017, make a written commitment to the original license issuing authority that it will meet the relevant requirements for business licensing and obtain the corresponding telecommunication business license by the end of 2017. This circular further emphasises that IDC License holders shall not conduct business beyond its approved business scopes or regions.

On 6 January 2015, the State Council issued the Opinions of the State Council on Promoting the Creative Development of Cloud Computing and Cultivating New Business Types in the Information Industry (國務院關於促進雲計算創新發展培育信息產業新業態的意見), which provided the principles on promoting the development of cloud computing and the innovation of cloud computing industry.

On 24 November 2016, MIIT issued the Announcement on Seeking Comments on the Notice on Regulating Business Activities in the Cloud Services Market (關於徵集《關於規範雲服務市場經營行為的通知》意見的公告) ("**Cloud Business Announcement**"). The Draft Cloud Business Announcement provided that, to provide cloud services within the territory of China, business operators shall meet relevant requirements on capital, staff, premises and facilities, pass the relevant technical evaluation, and obtain the corresponding business license for value-added telecommunications services in accordance with the Administrative Measures on Telecommunications Business Operating Licence (電信業務經營許可管理辦法) and the Circular of the MIIT of the People's Republic of China on Further Regulating the Market Access for Businesses of Internet Data Centers and Internet Services Providers (工業和信息化部關於進一步規範因特網數據中心業務和因特網接入服務業務市場准入工作的通告). Moreover, cloud service operators shall build a cloud service platform within the territory of the PRC. If the related servers need to connect with internet sites outside of the PRC, the data shall be routed through the international internet gateways approved by the MIIT, and the cloud service operators shall not build or use other channels via leased lines or VPN to connect with foreign sites. No formal regulations in connection with the Draft Cloud Business Announcement is promulgated to date.

On 2 July 2019, CAC, NDRC, MIIT and MOF jointly promulgated the Measures on Safety Evaluation for Cloud Computing Services (雲計算服務安全評估辦法) ("**Safety Evaluation Measures**"), which took effect on 1 September 2019. Pursuant to the Safety Evaluation Measures, cloud service providers may apply for a safety evaluation on the cloud platform which provides clouding computing services for the party and government departments or for the key information infrastructure operators, which result will be considered by the party and government departments or the key information infrastructure operators in purchasing cloud computing services.

On 21 January 2010, MIIT issued the Administrative Measures for Communications Network Security Protection (通信網絡安全防護管理辦法), which became effective on 1 March 2010. Pursuant to the measures, MIIT and its local counterpart will assign experts to review ratings of telecommunication network operated by telecommunication business operators and internet domain name service providers, who shall file the result of ratings with MIIT or its local counterpart after they have passed review. These operators shall implement security protection measures, conduct compliance testing and risk assessment regularly and eliminate major network security risks in a timely manner.

In addition, cloud service operators are required to conduct business activities in accordance the applicable national standards in respect of cloud service, including the Cloud Computing Service Security Capability Requirement (雲計算服務安全能力要求(GB/T31168-2014)), and the Publicly-owned Cloud Service Security Protection Requirement (公有雲服務安全防護要求(YD/T 3157-2016)).

On 28 June 2012, the State Council issued the Certain Opinions of the State Council on Promoting Informatisation Development and Practically Safeguarding Information Security (國務院關於大力推進信息化發展和切實保障信息安全的若干意見), according to which the data centers and cloud computing service platforms which provide services for the governmental authorities shall be located within the territory of the PRC.

On 30 December 2014, the Office of Central Leading Group for Cyberspace Affairs issued the Opinions on Further Strengthening the Internet Securities Management of Cloud Computing of Party and Government Departments (關於加強黨政部門雲計算服務網絡安全管理的意見), which provided that the cloud computing service platforms and data centers which provide services to the party and government departments shall be located within the territory of the PRC, and the sensitive information shall not be transferred, processed or reserved overseas without approval.

Moreover, as the internet service providers, cloud service providers shall also comply with the regulations of the Cybersecurity Law of the People's Republic of China (網絡安全法), according to which the cloud service providers must take technical measures to safeguard the operation of networks, respond to cyber security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. For the crucial information infrastructure operators, the personal information and important data collected by it during the business activities shall be reserved within the territory of the PRC and under circumstance that such information shall be transferred to overseas, relevant security assessment procedure shall be taken prior to the transfer.

REGULATIONS ON MOBILE AND TELECOMMUNICATION VALUE-ADDED SERVICES

Regulations on Short Messaging Services and Other Mobile-based Wireless Services

Pursuant to the currently effective Catalogue of Telecommunications Business, messaging services, and certain other mobile based wireless services fall under the scope of information service, and therefore an Operating Permit (Mobile Network) Value-added Telecommunications Business ("**SP Licence**") is required for engaging in such business operations.

On 15 April 2004, MIIT issued the Notice on Certain Issues Regarding Standardising Short Messaging Service (關於規範短信息服務有關問題的通知) ("**SMS Notice**"), specifying that only those information service providers holding the SP Licence can provide short messaging services in the PRC. The SMS Notice provides that service providers are required to expressly advise users of the charge standards, collection methods and subscription and cancellation procedures. In addition, operators shall provide SMS strictly in accordance with users' requirements. The SMS Notice also specifies that operators shall examine the contents of short messages and automatically record and store for five months the time of sending and receiving the short messages, the mobile numbers or codes of the sending and receiving terminals.

On 19 May 2015, the MIIT promulgated the Administrative Provisions on Short Messaging Services (通信短信息服務管理規定) ("**Provisions on Short Message Service**"), which became effective as at 30 June 2015. The Provisions on Short Message Service further clarify that short messaging services ("**SMS**") providers and short message content providers shall not send commercial short messages to users without the users' consent or request, and shall provide convenient and effective ways for users to refuse receipt of such short messages.

Regulations on Telecommunications Networks Code Number Resources

A value-added telecommunications service provider must apply to MIIT authorities to obtain a telecommunications network code number. On 29 January 2003, MIIT issued the Administrative Measures on Telecommunications Networks Code Number Resources (電信網碼號資源管理辦法) ("**Code Number Measures**"), which was amended on 23 September 2014 to regulate network code numbers, including those of mobile communications networks. According to the Code Number Measures, service providers who provide services across provinces shall apply to MIIT, and entities which apply for network code numbers to be used within a provincial-level administrative region shall apply to the relevant provincial branch of MIIT. The Code Number Measures also specify the qualification requirements, application materials and application procedures to obtain network code numbers.

In June 2006, MIIT issued the Administrative Measures on Application, Distribution, Usage and Withdrawal of SMS Services Access Codes (短消息類服務接入代碼申請、分配、使用和收回管理辦法) ("**SMS Code Measures**"). According to the SMS Code Measures, the administration and usage of services relating to SMS codes shall comply with the Code Number Measures. The SMS Code Measures also specify that operators who provide services relating to SMS codes across provinces shall apply with the relevant provincial branch of MIIT. The SMS code for a commercial SMS provider is valid for the term specified in the SP Licence, while the SMS code for the noncommercial SMS provider is valid for five years.

REGULATIONS ON ONLINE ADVERTISEMENTS

The principal regulations governing advertising businesses in the PRC include but are not limited to: (i) the Advertising Law of the PRC (廣告法) promulgated by the Standing Committee of the National People's Congress on 27 October 1994, which has been amended on 24 April 2015 and 26 October 2018, and (ii) the Advertising Administrative Regulations (廣告管理條例), promulgated by the State Council on 26 October 1987 and effective on 1 December 1987.

The PRC government regulates advertising, including online advertising, principally through SAMR. An enterprise that engages in advertising activities must obtain a business licence, which specifically includes operating an advertising business within its business scope from SAMR or its local branches. On 1 November 2016, SAIC promulgated the Regulations on the Administration of the Registration of Publishing Advertisements (廣告發佈登記管理規定) which took effect on 1 December 2016. Instead of the former licence system, the new regulation adopts a record system, which requires broadcasting stations, TV stations and newspaper and periodical presses to file their advertisement posts with SAIC and its local branches before publishing them.

On 9 February 2012, the Provisions on the Pre-release Review of Advertisements by Mass Media (大眾傳播媒介廣告發佈審查規定) was jointly promulgated by 11 governmental authorities (namely, SAIC, Propaganda Department of the Communist Party of China, SCIO, MPS, Ministry of Supervision, State Council Office for Rectifying Business Misconducts, MIIT, Ministry of Health, GAPP, State Food and Drug Administration, State Administration of Traditional Chinese Medicine). These provisions require Internet service providers to undertake internal review before the release of any advertisement, among other things.

According to the amended Advertising Law of the PRC in 2018 (廣告法(2018年修訂)) ("**Amended Advertising Law**"), all the provisions thereunder apply to the advertising activities conducted via the Internet. In addition, the Amended Advertising Law further provides that the release or distribution of advertisements via Internet shall not affect the normal use of the Internet by users. Advertisements released on Internet pages such as pop-up advertisements shall be indicated with clear close button to ensure that the users may close such advertisements by one click.

The Interim Measures on the Administration of Online Advertisements (互聯網廣告管理暫行辦法) ("**Online Advertisements Measures**") were promulgated by SAIC on 4 July 2016 and became effective on 1 September 2016. Online advertisements are broadly defined as commercial advertisements in the form of texts, pictures, audios and videos and can be found on websites, webpages and online applications. Pursuant to the Online Advertisements Measures, online advertisements must be distinctive, which enable consumers to easily identify them as advertisements. Specifically, paid online search shall be arranged distinctively from regular search results. In addition, online advertisement providers should be responsible for the authenticity of the online advertisements.

On 5 November 2020, the SAMR has promulgated the Guidance regarding Strengthening the Supervision over Marketing Activities by Internet Live-Streaming (關於加強網絡直播營銷活動監管的指導意見) to further regulated marketing activities by Internet live-streaming. The NRTA also issued a circular on the Strengthening Management of Live-Streaming of Internet Shows and Electronic Commerce (關於加強網絡秀場直播和電商直播管理的通知) on 12 November 2020 to provide instruction to online marketing activities through live-streaming. Platforms providing live-streaming of Internet show or electronic commerce shall register with National Internet Video-audio Platform Information Management System no later than November 30, 2020. The overall ratio of front-line content reviewers to live-streaming rooms on such platforms shall be no less than 1:50. The training for content reviewers shall be strengthened and content reviewers who have passed the training shall be registered in the Reviewer Information Management System. The platform shall report the number of its live-streaming rooms, streamers and content reviewers to the provincial branch of the NRTA on a quarterly basis. Internet show live-streaming platforms shall tag content of live-streaming rooms and corresponding streamers by category. A streamer cannot change the category of the programs tagged in his or her live-streaming room without prior

approval from the platform. Users that are minors or without real-name registration are prohibited from virtual tipping, and platforms shall cap the amount of virtual tipping per time, per day, and per month. When the virtual tipping by a user reaches half of the daily/monthly limit, a consumption notification from the platform and a confirmation from the user by text messages or other means are required before the processing the next transaction. When the amount of virtual tipping by a user reaches the daily/monthly limit, the platform shall suspend the virtual tipping function for such user for that day or month. To host any electronic commerce promotion events such as E-commerce Festival, E-commerce Day or Promotion Day in the forms of live-streaming rooms, live performances, live variety shows and other live programs, the platforms shall register the information of guests, streamers, content and settings with the local branch of NRTA 14 business days in advance. Internet electronic commerce live-streaming platforms shall conduct relevant qualification examination and real-name authentication on businesses and individuals providing live-streaming marketing services and keep complete examination and authentication records, and shall not enable imposters or businesses or individuals without qualification or real-name registration to conduct live-streaming marketing services.

PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC, which include prohibitions of, among other things, misleading content, superlative wording, socially destabilising content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic, radioactive drugs, pharmaceutical precursor chemicals, drug addiction treatment medicines, medical devices and treatment methods are prohibited. The dissemination of advertisements of some other products, such as tobacco, patented products, pharmaceuticals, medical instruments, agrochemicals, foodstuff, alcohol and cosmetics is also subject to specific restrictions and requirements.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the contents of the advertisements they produce or distribute are true and in full compliance with applicable laws and regulations. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors must ensure that such review has been duly performed and that the relevant approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to eliminate the ill-effect of the advertisements. In circumstances involving serious violations, SAIC or its local branches may order the violator to terminate its advertising operation or even revoke its business licence. Furthermore, advertisers, advertising operators or advertising distributors may be subject to criminal liability if their conduct breaches the criminal law or subject to civil liability if their conduct infringes on the legal rights and interests of third parties.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright

The Copyright Law of the PRC (著作權法), adopted in 1991 and revised in 2001, 2010 and 2020, together with its implementing rules (著作權法實施條例), promulgated in 2002 and revised in 2011 and 2013, protect copyright and explicitly cover computer software copyrights. On 20 December 2001, the State Council promulgated the new Regulations on Computer Software Protection (計算機軟件保護條例), which became effective from 1 January 2002 and were revised in 2011 and 2013, which are intended to protect the rights and interests of computer software copyright holders and encourage the development of the software industry and information economy. The Provisional Measures on Voluntary Registration of Works (作品自願登記試行辦法), promulgated by National Copyright Administration of the PRC on 31 December 1994 and effective on 1 January 1995, further provide for a voluntary registration system to be administered by the National Copyright Administration and its local branches. In the PRC, software developed by PRC citizens, legal person or other organisations is automatically protected by copyright immediately after its development without an application or approval. The Copyright Protection Center of China may provide a certificate of registration to registrants, which may serve as preliminary evidence of the ownership of the copyright and other registered matters. On 20 February 2002, the National Copyright

Administration of the PRC introduced the Measures on Computer Software Copyright Registration (計算機軟件著作權登記辦法), which outlines the application procedures for software copyright registration, licence contract registration and transfer contract registration.

On 18 May 2006, the State Council promulgated the Regulations on Protection of the Right of Dissemination through Information Networks (信息網絡傳播權保護條例) ("**Protection Regulations**"), which became effective on 1 July 2006 and was amended on 30 January 2013 and further became effective on 1 March 2013. The Protection Regulations require that any organisation or individual who disseminates a third-party's work, performance, audio or visual recording products to the public through information networks shall obtain permission from and pay compensation to the legitimate copyright owner of such products, unless otherwise provided under relevant laws and regulations. The legitimate copyright owner may take technical measures to protect his or her right to disseminate through information networks and any organisation or individual shall not intentionally avoid, destroy or otherwise assist others in avoiding or destroying such protective measures unless permissible under law.

On 17 December 2012, the PRC Supreme People's Court promulgated the Provisions of the PRC Supreme People's Court on Several Issues regarding the Application of Laws in Deciding Civil Disputes Involving Infringement of the Right to Communicate via Information Networks (最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定), which took effect on 1 January 2013, and further amended on 29 December 2020 and became effective on 1 January 2021. This judicial interpretation aims to solve disputes in connection with the infringement of the right of communication through the Internet and protect the lawful rights in this respect. This rule places the burden on Internet service providers to take necessary measures to remove not only links or contents that have been specifically mentioned in the notices of infringement and preliminary evidence of infringement from right holders, but also links or contents they "should have known" to link to infringing content. The interpretation further provides that where an Internet service provider has directly obtained economic benefits from any contents made available by an Internet user, it has a higher duty of care with respect to Internet users' infringement of third-party copyrights.

On 4 November 2016, SAPPRFT issued the Circular on Strengthening the Copyright Administration of Internet Literary Works (關於加強網絡文學作品版權管理的通知), which became effective on the same day. Pursuant to the circular, Internet service providers who provide literary works through information networks and render relevant network services shall (i) strengthen the copyright supervision and administration, establish a sound infringing works handling mechanism, and fulfill the obligation to protect the copyright of Internet literary works according to the law; (ii) establish a copyright complaint mechanism, actively accept complaints from right holders, and resolve the legitimate demands of right holders in a timely manner according to the law and (iii) delete infringing works and disconnect the relevant links within 24 hours after receipt of such notices and complaints from right holders.

On 29 April 2005, GAPP and MIIT issued the Measures on Administrative Protection of Internet Copyright (互聯網著作權行政保護辦法) which became effective on 30 May 2005. Pursuant to the measures, if an Internet information service provider clearly knows an Internet content provider's tortious act of infringing upon other's copyright through Internet, or fails to take measures to remove relevant contents after receipt of the copyright owner's notice although it does not know it clearly, and meanwhile such tortious act damages public benefits, the copyright administration department may order to stop the tortious act, and may impose the following administrative penalties: (i) confiscation of the illegal proceeds; and (ii) imposing a fine of not more than 3 times the illegal business amount; if the illegal business amount is difficult to be calculated, a fine of not more than RMB100,000 may be imposed.

On 17 April 2015, SAPPRFT issued the Circular on Regulating the Order of Internet Reproduction of Copyrighted Works (關於規範網絡轉載版權秩序的通知), which became effective on the same day. Pursuant to the circular, (i) internet media shall comply with the relevant provisions of copyright laws and regulations, and must acquire permission from and pay remuneration to the copyright owners, and shall indicate the name of the author, as well as the name and the source of the work, except as otherwise provided by laws and regulations; (ii) internet media shall not make any substantial revision to the

contents of the works when reproducing other people's works; (iii) SAPPRFT encourage press and internet media to establish a cooperation mechanism for internet reproduction and (iv) the copyright administrative departments at various levels shall strengthen the supervision of copyrights of internet media.

Patent

The Standing Committee of the National People's Congress adopted the Patent Law (專利法) in 1984, and amended it in 1992, 2000, 2008 and 2020. To further enforce the Patent Law, the State Council promulgated the Implementing Rules of the Patent Law (專利法實施細則) in 2001, as amended in 2002 and 2010. The purpose of the Patent Law together with its implementing rules is to protect the lawful interests of patent holders, encourage invention, foster applications of invention, enhance innovative capabilities and promote the development of science and technology. Patentable inventions can be divided into three categories: invention, utility models and designs. To be patentable, invention or utility models must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds, substances obtained by means of nuclear transformation or a design which identifies the patterns or colors or a combination of both patterns and colors of graphic print products.

The Patent Office, under the State Intellectual Property Office, is responsible for receiving, examining and approving patent applications. A patent is valid for a term of twenty years in the case of an invention and a term of ten years in the case of utility models and designs. A third-party user must obtain consent or a proper licence from the patent owner to use the patent. Otherwise, the use constitutes an infringement of patent rights.

Trademark

The Trademark Law of the PRC (商標法), adopted in 1982 and revised in 1993, 2001, 2013 and 2019, together with its implementing rules (商標法實施條例), promulgated in 2002 and amended in 2014, protects registered trademarks. The Trademark Office under the State Intellectual Property Office is responsible for trademark registrations. The Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Upon the registration of a trademark, the applicant will have the right to exclusive use of the trademark for ten years. Registered trademark licence agreements must be recorded with the Trademark Office.

Domain Name

Internet domain name registration and related matters are primarily regulated by Implementation Rules of National Top Level Domain Name Registration (國家頂級域名註冊實施細則) issued by CNNIC on 18 June 2019 which replaced the Implementing Rules on Registration of Domain Names (域名註冊實施細則), which became effective on 5 June 2009, as amended on 28 May 2012 and was repealed on 29 May 2012 by Implementation Rules of National Top Level Domain Name Registration (國家頂級域名註冊實施細則), which became effective on 18 June 2019, and the Measures on National Top Level Domain Name Disputes Resolution (國家頂級域名爭議解決辦法) issued by CNNIC on 18 September 2019, which was repealed on 29 May by the Measures on National Top Level Domain Name Disputes Resolution (國家頂級域名爭議解決辦法), which became effective on 18 June 2019. These regulations provide that domain name registrations will be handled through domain name service agencies and that applicants become domain name holders upon successful domain name registration. In July 2001, the PRC Supreme People's Court issued the Judicial Interpretation on Certain Issues Concerning the Application of Laws in the Trial of Cases Involving Civil Disputes over Computer Network Domain Names (最高人民法院關於審理涉及計算機網絡域名民事糾紛案件適用法律若干問題的解釋) as further amended on 29 December 2020 and effective on 1 January 2021 to clarify certain issues involved in civil disputes in registration and use of computer network domain names. On 24 August 2017, MIIT promulgated Measures on Administration of Domain Names (互聯網域名管理辦法), which took effect on 1 November 2017. Pursuant to Measures on

Administration of Domain Names, MIIT shall supervise the domain names services national wide and publicise PRC's domain name system. Furthermore, Measures on Administration of Domain Names adopts "first-to-file" rule to allocate domain names to applicants.

OTHER REGULATIONS

Regulations on Information Security

The National People's Congress enacted laws and regulations that prohibit use of the Internet that breaches public security, disseminates socially destabilising content or leaks state secrets. A breach of public security is defined as a breach of national security or disclosure of state secrets, infringement on state, social or collective interests or the legal rights and interests of citizens, or illegal or criminal activities. Socially destabilising content includes any content that incites defiance or violation of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities. According to other relevant regulations, ICP operators must complete mandatory security filing procedures, regularly update information security and censorship systems for their websites with local public security authorities and report any public dissemination of prohibited content.

The Cyber Security Law provides that the PRC will implement a tiered system for cyber security protections. Network operators bear a number of security protection duties under such tiered system to prevent the network from interference, damage, unauthorised access, data leaks, theft or falsification. The Cyber Security Law also sets out a number of high-level principles for personal data protection. In addition, network operators are obliged to avoid transmission of any illegal information.

It further provides that network operators shall provide technical support and assistance to public security agencies and state security agencies for the purpose of national security and crime investigations. The Cyber Security Law adopts a "real-name" requirement, which requires users to provide their real identity information.

On 13 April 2020, CAC, NDRC, MIIT, MPS, Ministry of State Security, MOF, MOFCOM, PBOC, SAMR, NRTA, National Administration of State Secrets Protection and State Cryptography Administration jointly promulgated the Measures on Internet Security Examination (網絡安全審查辦法) ("**Internet Security Examination Measures**"), which took effect on 1 June 2020 and replace the Measures for Security Examination of Internet Products and Services (Provisional) (網絡產品和服務安全審查辦法(試行)). Pursuant to the Internet Security Examination Measures, key information infrastructure operators shall apply with Internet security examination office for Internet security examination when purchasing certain Internet products or services if the use of such products or services will affect or potentially affect national security. The providers of internet products and services shall cooperate with the security examination process. The "Internet products or services" as defined in the Internet Security Review Measures mainly refer to core network facilities, high-performance computers and servers, mass storage devices, large database, applications or software, cyber security devices, clouding computing services and other products and services which may have significant effect on security of the key information infrastructures. On 13 December 2005, MPS promulgated Provisions on Technological Measures for Internet Security Protection (互聯網安全保護技術措施規定) ("**Internet Protection Measures**"), which became effective on 1 March 2006. The Internet Protection Measures requires all ICP operators to keep user information records, including user registration information, log-in and log-out time, IP address, content and time of posts by users, for at least 60 days and submit the above information as required by laws and regulations. If an ICP operator violates these measures, the PRC government may revoke its ICP Licence and shut down its websites.

On 16 December 1997, MPS promulgated the Measures for Security Protection Administration of the International Networking of Computer Information Networks (計算機信息網絡國際聯網安全保護管理辦法), which became effective on 30 December 1997 and was amended and became effective on 8 January 2011 and which requires that ICP operators should take responsibilities to secure the network operation safety and information safety, including establishing internet security systems and implementing technical measures. If an ICP operator violates these measures, the PRC government may revoke its ICP Licence and shut down its websites. In addition, the State Secrecy Bureau has issued provisions authorising the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets.

The newly amended Law on Preservation of State Secrets (保守國家秘密法), which became effective on 1 October 2010, along with its implementing rules (effective on 1 March 2014), provides that whenever an ICP operator detects any leakage of state secrets in the distribution of online information, it should stop the distribution of such information and report such violation to the state security and public security authorities. Upon the request of state security, public security or state secrecy authorities, the ICP operator must delete any contents on its website that may lead to disclosure of state secrets. Failure to do so on a timely and adequate manner may subject the ICP operator to liability and certain penalties enforced by the State Security Bureau, MPS and MIIT or their respective local branches.

Regulations on Internet Privacy

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have enacted legislation on Internet use to protect personal information from any unauthorised disclosure. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the laws. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others. The Internet Measures prohibit an ICP operator from insulting or slandering a third-party or infringing the lawful rights and interests of a third-party.

On 29 December 2011, MIIT issued the Several Provisions on Regulating the Market Order of Internet Information Services (規範互聯網信息服務市場秩序若干規定), which took effect on 15 March 2012. The regulation requires ICP operators to obtain consent before collecting personal information or provide personal information to others. Failures to comply with the regulation may subject ICP operators to fines and such noncompliance will be reported to the public.

The Network Information Protection Decision provides that electronic information that identifies a citizen or involves privacy of any citizen is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorised disclosure, damage or loss.

Following the Network Information Protection Decision, MIIT issued the Regulations on Network Information Protection, pursuant to which ICP operators are obliged to make management rules on collecting and using personal information. Specifically, ICP operators cannot collect personal information from users without their consent. ICP operators must also inform their users of the use of personal information and take measures to avoid unauthorised disclosures.

Failure to protect personal information may also subject ICP operators to criminal liabilities. On 8 May 2017, the Supreme People's Court and the Supreme People's Procuratorate jointly promulgated the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues

Concerning the Application of Law in the Handling of Criminal Cases of Infringing on Citizens' Personal Information (最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋), effective on 1 June 2017. The Interpretation specifically provides that publishing personal information via the Internet in violation of PRC regulations may be held liable under the PRC Criminal Law.

The Cyber Security Law provides that network operators shall obtain the individual's prior consent before collecting the personal data of such individual and take necessary technical measures or other appropriate measures to protect the personal data, and shall not provide the personal data to any third-party without the individual's prior consent unless such personal data has been processed in a proper way that a specific person will not be identified. For the operators of crucial information infrastructure, the personal data and crucial data must be stored within the territory of the People's Republic of China. Where such data need to be provided to overseas parties due to business requirements, a security assessment shall be conducted before the transmission of the data.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps (關於開展App違法違規收集使用個人信息專項治理的公告), which was issued on 23 January 2019, app operators should collect and use personal information in compliance with the Cyber Security Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen protection of personal information. Furthermore, app operators should not force their users to grant authorisation for their collection or use of personal information by means of bundling, suspending installation or in other default forms, nor should they collect personal information in violation of laws, regulations or user agreements. Such regulatory requirements are also emphasised by the Notice on the Special Rectification of Apps Infringing upon User's Personal Rights and Interests (工業和信息化部關於開展APP侵害用戶權益專項整治工作的通知), which was issued by MIIT on 31 October 2019. On 28 November 2019, the CAC, the MIIT, the MPS and the SMAR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information (關於印發《App違法違規收集使用個人信息行為認定方法》的通知). This regulation further illustrates certain commonly-seen illegal practices of apps operators in respect of personal information protection, including "failure to publicise rules for collecting and using personal information", "failure to expressly state the purpose, manner and scope of collecting and using personal information", "collection and use of personal information without consent of users of such App", "collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity", "provision of personal information to others without users' consent", "failure to provide the function of deleting or correcting personal information as required by laws" and "failure to publish information such as methods for complaints and reporting". Among others, any of the following acts of an app operator will constitute "collection and use of personal information without consent of users": (i) collecting an user's personal information or activating the permission for collecting an user's personal information without obtaining such user's consent; (ii) collecting personal information or activating the permission for collecting personal information of an user who explicitly refuses such collection, or frequently seeking for an user's consent which disturbs such user's normal use of the app; (iii) an user's personal information actually collected by the app operator or the permission for collecting an user's personal information actually activated by the app operator is beyond the scope of such user's authorisation; (iv) seeking for an user's consent in a non-explicit manner such as consent to privacy policy by default; (v) changing status of an user's settings for the permission for collectable personal information without such user's consent; (vi) using users' personal information and algorithms to push information that targets such users, without providing users with an option for non-targeted push; (vii) misleading users into permitting personal information collection or activation of the permission for personal information collection by improper methods such as fraud and deception; (viii) failing to provide users with means and methods for withdrawing their permission for personal information collection; and (ix) collecting and using personal information in violation of the rules for collecting and using personal information promulgated by such app operator.

On 22 August 2019, the CAC promulgated the Children Information Cyber Protection Provisions (兒童個人信息網絡保護規定), which took effect on 1 October 2019, requiring that before collecting, using, transferring or disclosing the personal information of a child under the age of 14, the Internet service operator should inform the child's guardians in a noticeable and clear manner and obtain their consents. Meanwhile, Internet service operators should take measures such as encryption to ensure information security when storing children's personal information.

On 21 October 2020, the Standing Committee of the National People's Congress issued the Draft Personal Information Protection Law (個人信息保護法(草案)). The Draft Personal Information Protection Law integrates provisions from several rules with respect to personal information rights and privacy protection. According to the Draft Personal Information Protection Law, personal information refers to information related to identified or identifiable natural persons which is recorded by electronic or other means (excluding the anonymized information). As at the date of this document, the Draft Personal Information Protection Law has not come into effect.

Regulations on Internet Infringement

The Tort Law of the PRC (侵權責任法) ("**PRC Tort Law**") was promulgated by the Standing Committee of National People's Congress on 26 December 2009 and became effective on 1 July 2010, and previously regulated Internet infringement. The PRC Tort Law was replaced by the Civil Code on 1 January 2021. According to the Civil Code, both Internet users and Internet service provider may be liable for the wrongful acts of users who infringe the legal rights and interests of other parties. Where an Internet user infringes upon the legal rights or interests of another through the use of Internet services, the party whose rights are infringed may request the Internet service provider whose Internet services are facilitating the infringement to take necessary measures including deleting, blocking or disconnecting relevant Internet links. If, after being notified, the Internet service provider fails to take necessary measures in a timely manner to end the infringement, it will be jointly and severally liable for any further damages suffered by the right holder. Further, if an Internet service provider is aware or should have been aware that an Internet user is utilising its Internet services to infringe upon the civil rights or interests of others and fails to take necessary measures, it shall be jointly and severally liable with the Internet user for damages resulting from the infringement.

The Civil Code has further elaborated on "safe harbor" rule with respect to an internet service provider from both the aspects of notice and counter notice, including (i) upon receiving notice from the right holder, promptly adopting necessary protective measures such as deletion, screening or disconnection of hyperlinks and reefing right holder's notice to disputed internet user; and (ii) upon receiving counter-notice from the disputed internet user, referring such counter-notice to the claiming right holder and informing the right holder to take other corresponding measures such as filing complaint with competent authorities or suit with courts. On 21 August 2014, the Supreme People's Court of the PRC promulgated a judicial interpretation, namely, the Provisions of the Supreme People's Court of the PRC on Several Issues Concerning the Application of Law in Hearing Civil Dispute Cases Involving Infringement of Personal Right by Using Information Networks (最高人民法院關於審理利用信息網絡侵害人身權益民事糾紛案件適用法律若干問題的規定) and further amended on 29 December 2020 and took effect on 1 January 2021, as further amended on 29 December 2020 and effective on 1 January 2021, which strengthens the protection over personal rights against infringement by using information networks and clarifies the liability of certain Internet infringement.

Regulations on Technology and Software Imports

On 10 December 2001, the State Council promulgated the Regulations on Administration of Import and Export of Technologies (技術進出口管理條例) ("**Import and Export Technologies Regulations**"), which became effective on 1 January 2002 and was amended on 8 January 2011, 2 March 2019, and 29 November 2020. These regulations and related legislations set out the regime regulating the import and export of technologies. The import and export of technologies is broadly defined as including transfer or licence of patents, software and know-how, and provision of services related to the technologies. Under the regime,

technologies are classified as prohibited, restricted or freely-tradable. The technologies in the freely-tradable category may be traded freely without a special approval or licence. The contracts for the export of freely-tradable technologies are required to be filed with the relevant government authority for their records but the filing procedure is not a pre-condition for effectiveness of the contracts. The technologies in the restricted category may not be traded without approval or licence.

To implement this requirement, the Administrative Measures for Registration of Technology Import and Export Contracts (技術進出口合同登記管理辦法), the Administrative Measures on Prohibited and Restricted Technology Exports (禁止出口限制出口技術管理辦法), and the Administrative Measures on Prohibited and Restricted Technology Imports (禁止進口限制進口技術管理辦法) were promulgated by MOFCOM or by MOFCOM jointly with other governmental authorities since February 2009, among which the Administrative Measures on Prohibited and Restricted Technology Imports (禁止進口限制進口技術管理辦法) were further amended on 30 November 2019 and became effective on 30 December 2019.

MOFCOM is the principal approval authority for restricted technologies, as well as the registration authority for permitted technologies, but the Import and Export Technologies Regulations also provide that MOFCOM may delegate its approval and registration authority to its local branches.

Regulations Relating to Foreign Exchange and Dividend Distribution

The principal regulations governing foreign currency exchange in the PRC are the Regulations on Administration of Foreign Exchange (外匯管理條例) ("**Foreign Exchange Regulations**"), promulgated by the State Council in 1996 and amended in 1997 and 2008. Under the Foreign Exchange Regulations, RMB is freely convertible for current account items, such as dividends distributions, interest payments, and trade and service-related foreign exchange transactions, on a basis of true and lawful transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside the PRC, unless the prior approval of SAFE or qualified banks is obtained and registration with SAFE is completed.

Pursuant to the Rules on Administration of Settlement, Sale and Payment of Foreign Exchange Provisions (結匯、售匯及付匯管理規定) issued by PBOC on 20 June 1996 and effective on 1 July 1996, foreign-invested enterprises in the PRC may purchase foreign currency, subject to a cap approved by SAFE, to settle current account transactions without the approval from SAFE. Foreign exchange transactions involving capital account items are still subject to limitations and will require approval from or registration with SAFE (or qualified banks according to Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) ("**SAFE Circular 13**"), which was partially abolished on 30 December 2019.

On 23 June 2010, SAFE promulgated the Notice of the Adjustment the Approval Authority on Certain Capital Items for Foreign Exchange Business (關於調整部分資本項目外匯業務審批權限的通知) and became effective on 1 July 2020, which delegates additional approval authority to the local branches of SAFE.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment ("**SAFE Circular 59**") (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) promulgated by SAFE on 19 November 2012, which became effective on 17 December 2012 and were further amended on 4 May 2015, on 10 October 2018 and on 30 December 2019, approval is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. SAFE Circular 59 also simplified foreign exchange-related registration required for the foreign investors to acquire the equity interests of Chinese companies and further improved the administration on foreign exchange settlement for foreign-invested enterprises.

In order to further clarify the current foreign exchange regulations over foreign direct investment, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Promulgation of the Regulations on the Foreign Exchange Administration of Foreign Direct Investments in PRC together with the Supporting Documents thereof ("**Circular 21**") (國家外匯管理局關於印發外國投資者境內直接投資外匯管理規定及配套文件的通知) on 11 May 2013, which were further amended on 10 October 2018 and 30 December 2019.

On 15 March 2019, SAFE promulgated the Administrative Provisions on Centralised Operation of Cross-border Funds by Multinational Companies (跨國公司跨境資金集中運營管理規定), which repeals the Administrative Rules of Centralized Operation of Foreign Exchange by Multinational Companies (跨國公司外匯資金集中運營管理規定) promulgated by SAFE on 5 August 2015. Pursuant to these provisions, multinational companies may select a domestic company as the lead company to centrally operate and manage domestic and foreign member company's funds in accordance with their business need and carry out one or more of such businesses as centralizing foreign debt quota, centralizing overseas lending quota, centralizing fund receipt/payment and netting settlement in the current account, provided that certain conditions are satisfied. On 30 March 2015, SAFE promulgated the Notice on Administration over Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) ("**Circular 19**"), which became effective on 1 June 2015 in terms of payment and settlement of foreign exchange capital by foreign-invested companies and were further amended on 30 December 2019. Circular 19 further simplifies the procedures and delegates to the banks to deal with the settlement of the foreign exchange capital of foreign-invested companies. Pursuant to Circular 19, foreign-invested enterprises are allowed to settle their foreign exchange capital on a discretionary basis, while the use of the capital and the RMB funds obtained from foreign exchange settlement for certain purposes is still prohibited.

On 9 June 2016, SAFE promulgated Circular on the State Administration of Foreign Exchange on Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) ("**SAFE Circular 16**"), which removed certain restrictions previously provided under several SAFE circulars, in respect of conversion by a foreign invested enterprise of foreign currency registered capital into RMB and use of such RMB capital. However, SAFE Circular 16 continues to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capital for expenditure beyond its business scope, and providing loans to non-affiliated enterprises except as permitted in the business scope.

On 25 October 2019, the SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment (關於進一步促進跨境貿易投資便利化的通知) ("**Circular 28**"), which, among other things, allows all foreign-invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment.

The principal regulations governing distribution of dividends by wholly foreign-owned enterprises include the Company Law (公司法) and Foreign Investment Law (外商投資法). Under these laws and regulations, wholly foreign invested enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. Wholly foreign-owned enterprises in the PRC are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of the relevant fund reaches 50% of its registered capital.

Regulations on Offshore Investment by PRC Residents

On 4 July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) ("**Circular 37**"), which abolishes and supersedes the Circular on Relevant Issues Concerning Foreign Exchange Control on Financing and Roundtrip Investment Conducted by Residents in China via Special-Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) ("**Circular 75**") issued by SAFE on 21 October 2005. Circular 37 and its implementation guidelines

require PRC residents to register with local branches of SAFE (or with qualified banks according to SAFE Circular 13) in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a "special purpose vehicle". The term "control" under Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfil the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under the PRC law for evasion of foreign exchange controls.

On 13 February 2015, SAFE promulgated SAFE Circular 13, which became effective on 1 June 2015 and was partially abolished on 30 December 2019. In accordance with SAFE Circular 13, if no retroactive SAFE registration is required, entities and individuals are required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under the Circular 37, with qualified banks, instead of SAFE, while SAFE will handle retroactive SAFE registration. The qualified banks, under the supervision of SAFE, directly examine the applications and conduct the registration.

As these SAFE regulations are still relatively new and their interpretation and implementation have been constantly evolving, it is unclear how these regulations and any future regulation concerning offshore or cross-border transactions will be interpreted, amended or implemented by the relevant government authorities. As for the risks in connection with SAFE regulations, please see "*Risk Factors — Risks Relating to the PRC — PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us*".

Regulations on Employee Stock Options Plans

On 25 December 2006, the PBOC promulgated the Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法), which became effective on 1 February 2007 and set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. On 5 January 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法實施細則) which became effective on 1 February 2007 and was amended in May 2016. Among other things, specifies approval requirements for a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly listed company.

On 15 February 2012, SAFE promulgated the Notice on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas-Listed Company (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知), which supersedes a previous notice issued by SAFE in March 2007 and requires domestic employees who participate in stock incentive plan including employee stock holding plans, share option plans or similar plans in an overseas-listed company to register with the relevant local SAFE branch through a PRC agent and complete certain other procedures. A PRC agent shall be a domestic company participating in the stock incentive plan or a domestic institution that is qualified to engage in assets custodian business and has been duly designated by such domestic company.

Regulations on Foreign Investor's Merger and Acquisition of PRC Enterprises

In August 2006, six PRC regulatory agencies jointly adopted Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the "**M&A Rules**"), which became effective on 8 September 2006 and were amended by MOFCOM and became effective on 22 June 2009. The M&A Rules provided for the filing and approval procedures on the merger and acquisition of domestic enterprises by foreign investors.

According to the Anti-Monopoly Law (反壟斷法) which took effect as at 1 August 2008, where the concentration of business operators reaches the filing thresholds stipulated by the State Council, business operators shall file a declaration with the anti-monopoly enforcement agency under the State Council, and no concentration shall be implemented until the anti-monopoly enforcement agency clears the anti-monopoly filing.

In November 2009, MOFCOM promulgated the Measures for Declaration of Concentration of Business Operators (經營者集中申報辦法) and the Measures for Examination and Approval of Concentration of Business Operators (經營者集中審查辦法), which provide for detailed provisions regarding the filing of prior declaration and examination and approval process by the MOFCOM with respect to anti-monopoly review.

On 18 March 2018, the National People's Congress approved the State Council Institutional Reform Plan (國務院機構改革方案), which delegates duties of examining and approving concentration of business operators together with other anti-monopoly law enforcement duties to SAMR.

On 29 September 2018, SAMR amended and re-promulgated the Guidance Opinions for Prior Declaration of Concentration of Business Operators (經營者集中申報的指導意見) to further clarify the relevant issues and facilitate the declaration of concentration.

On 7 February 2021, the Guidelines on Anti-Monopoly for Platform Economy Sector (關於平台經濟領域的反壟斷指南) (the "**Anti-Monopoly Guidelines**") was issued and became effective by Anti-Monopoly Committee of State Council. The Anti-Monopoly Guidelines was formulated in accordance with the Anti-Monopoly Law, the purpose of which is to promote competition and innovation in the platform economy. The Anti-Monopoly Guidelines prohibits certain monopolistic acts of internet platforms so as to protect market competition and safeguard interests of users and undertakings participating in internet platform economy, including without limitation, prohibiting platforms with dominant position from abusing their market dominance (such as discriminating customers in terms of pricing and other transactional conditions using big data and analytics, coercing counterparties into exclusivity arrangements, using technology means to block competitors' interface, favorable positioning in search results of goods displays, using bundle services to sell services or products, compulsory collection of unnecessary user data). In addition, the Anti-Monopoly Guidelines also reinforces antitrust merger review for internet platform related transactions to safeguard market competition. The Anti-Monopoly Guidelines clarifies the factors to be taken into consideration when assessing the competition influence of concentration: (i) the market share of operator; (ii) the controlling power to market of operator; (iii) the concentration in relevant market; (iv) the impact of concentration on market access; (v) the impact of concentration on technology progress; (vi) the impact of concentration on consumers; and (vii) other factors the enforcement agency would consider relevant.

On 3 February 2011, the General Office of the State Council promulgated the Notice on Establishment of the Security Review System for the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知) ("**Security Review Notice**"), which became effective on 3 March 2011. The Security Review Notice officially established the security review system for mergers and acquisitions of domestic enterprises by foreign investors, which is to be implemented by an inter-ministerial panel under the leadership of the State Council.

On 25 August 2011, MOFCOM issued the Provisions of the Ministry of Commerce on the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) ("**Security Review Provisions**"), which became effective on 1 September 2011. Pursuant to the Security Review Provisions, if a foreign investor's merger or acquisition of a domestic enterprise falls within the scope of security review specified in the Security Review Notice, the foreign investor shall file an application with MOFCOM for security review.

On 19 December 2020, the NDRC and the MOFCOM promulgated the Measures for the Security Review of Foreign Investment (外商投資安全審查辦法), which became effect on January 18 2021. The NDRC and the MOFCOM will establish a working mechanism office in charge of the security review of foreign investment. the Measures for the Security Review of Foreign Investment define foreign investment as direct or indirect investment by foreign investors in the PRC, which includes (i) investment in new onshore projects or establishment of wholly foreign owned onshore companies or joint ventures with foreign investors; (ii) acquiring equity or asset of onshore companies by merger and acquisition; and (iii) onshore investment by and through any other means. Investment in certain key areas with bearing on national security, such as important cultural products and services, important information technology and internet services and products, key technologies and other important areas with bearing on national security which results in the acquisition of de facto control of investee companies, shall be filed with a specifically established office before such investment is carried out. It is likely that control through contractual arrangement be regarded as de facto control based on provisions applied to security review of foreign investment in the China free trade zone. Failure to make such filing may subject such foreign investor to rectification within prescribed period, and will be recorded as negative credit information of such foreign investor in the relevant national credit information system, which would then subject such investors to joint punishment as provided by relevant rules. If such investor fails to or refuses to undertake such rectification, it would be ordered to dispose of the equity or asset and to take any other necessary measures so as to return to the status quo and to erase the impact to national security. Whether a foreign investor's merger or acquisition of a domestic enterprise falls within the scope of security review or not shall be determined based on the substance and actual influence of the merger or acquisition transaction. No foreign investor is allowed to substantially avoid the security review in any way, including but not limited to, holding shares on behalf of others, trust arrangements, multi-level reinvestment, leasing, loans, contractual control, or overseas transactions.

Substantial Shareholders' Interests

As at 31 December 2020, the following persons, other than the Directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the shares of the Company:

Long/short position in the shares of the Company

Name of shareholder	Long/short position	Nature of interest/capacity	Number of shares/underlying shares held	Approximate % of shareholding
MIH TC Holdings Limited	Long position	Corporate(1)	2,961,223,600	30.87%
Advance Data Services Limited..	Long position	Corporate(2)	804,859,700	8.39%

Note:

(1) MIH TC Holdings Limited is controlled by Naspers Limited indirectly through its non wholly-owned intermediary companies, Prosus N.V. and MIH Internet Holdings B.V. As such, Naspers Limited, Prosus N.V. and MIH Internet Holdings B.V. are deemed to be interested in the same block of 2,961,223,600 shares under Part XV of the SFO. MIH Services FZ LLC was previously deemed to be interested in this same block of shares under Part XV of the SFO. However, following an internal restructure of the Prosus group, MIH Internet Holdings B.V. is now deemed to be interested in this same block of shares under Part XV of the SFO.

MIH TC Holdings Limited entered into a placing agreement with the placing agents on 8 April 2021 in relation to the disposal of an aggregate of 191,890,000 shares, representing approximately 2% of the total number of issued shares of the Company. Immediately upon completion of such disposal, MIH TC Holdings Limited holds 2,769,333,600 shares, representing approximately 28.86% of the total number of issued shares of the Company.

(2) Advance Data Services Limited holds 709,859,700 shares directly and 95,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. As Advance Data Services Limited is wholly-owned by Mr. Ma Huateng, Mr. Ma has an interest in these shares as disclosed under the section of "Directors' Interests".

Save as disclosed above, the Company had not been notified of any other persons (other than the Directors or chief executive of the Company) who, as at 31 December 2020, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Directors' Interests

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the SEHK were as follows:

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

Name of Director	Nature of interest	Number of shares/underlying shares held	Approximate % of shareholding
Ma Huateng	Corporate(1)	804,859,700	8.39%
Lau Chi Ping Martin	Personal*	53,390,021(2)	0.56%

Name of Director	Nature of interest	Number of shares/underlying shares held	Approximate % of shareholding
Li Dong Sheng	Personal*	29,375[3]	0.0003%
Iain Ferguson Bruce	Personal*	365,500[4]	0.004%
Ian Charles Stone	Personal*	62,000	0.003%
	Family+	240,000	
		302,000[5]	
Yang Siu Shun	Personal*	46,474[6]	0.0005%
Ke Yang	Personal*	11,984[7]	0.00012%

Note:

(1) Advance Data Services Limited, a British Virgin Islands company wholly-owned by Mr. Ma Huateng, holds 709,859,700 shares directly and 95,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.

(2) The interest comprises 33,267,826 shares and 20,122,195 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV.

(3) The interest comprises 8,750 shares and 20,625 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme.

(4) The interest comprises 332,750 shares and 32,750 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme.

(5) The interest comprises 260,750 shares and 41,250 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme.

(6) The interest comprises 12,724 shares and 33,750 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme.

(7) The interest comprises 1,496 shares and 10,488 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme.

* Interests of beneficial owner

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

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

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

Save as disclosed above, none of the Directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2020.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following summary of the principal terms of the instruments governing our material indebtedness does not purport to be a complete description of all of the terms of these instruments and may not contain all of the information that may be important to prospective investors. Investors should read the consolidated financial statements included elsewhere in this Offering Circular for additional information about our indebtedness.

As at 31 December 2020, our borrowings included in current liabilities were RMB14,242 million (US$2,183 million), and borrowings and notes payable included in non-current liabilities were RMB112,145 million (US$17,187 million) and RMB122,057 million (US$18,706 million), respectively. As at 31 December 2020, our total borrowings included in current liabilities comprised onshore RMB bank borrowings, offshore H.K. dollar bank borrowings, offshore U.S. dollar bank borrowings and offshore EUR bank borrowings, and our borrowings included in the non-current liabilities comprised onshore RMB bank borrowings, offshore EUR bank borrowings and offshore U.S. dollar bank borrowings. As at 31 December 2020, our notes payable comprised the 2023 Notes, the 2023 Floating Rate Notes, the 2024 Notes, the 2024 Floating Rate Notes, the 2025 Notes, the TME 2025 Notes, the 2026 Notes, the January 2026 Notes, the 2028 Notes, the 2029 Notes, the 2030 Notes, the TME 2030 Notes, the 2035 Notes, the 2038 Notes, the 2049 Notes, the 2050 Notes and the 2060 Notes.

U.S. Dollar Bank Borrowings, H.K. Dollar Bank Borrowings, EUR Bank Borrowings and RMB Bank Borrowings

The aggregate principal amounts of short-term USD, HKD and RMB bank borrowings as at 31 December 2020 were US$1,400 million, HKD171 million and RMB4,179 million, respectively. Applicable interest rates are at LIBOR plus 0.45% to 0.50% for USD bank borrowings, HIBOR plus 0.90% to 3.90% for HKD bank borrowings and fixed interest rates of 3.55% to 5.22% for RMB bank borrowings per annum.

The aggregate principal amounts of long-term USD, EUR and RMB bank borrowings as at 31 December 2020 were US$17,075 million, EUR151 million and RMB300 million, respectively. Applicable interest rates are at LIBOR plus 0.70% to 1.27% for USD bank borrowings, fixed interest rates of 0.52% to 1.00% for EUR bank borrowings and a fixed interest rate of 5.70% for RMB bank borrowings per annum.

These USD, HKD and EUR bank borrowings were entered into by one of our offshore subsidiaries, under which it has agreed to certain customary covenants relating to, among other things, securities over its assets, disposals of its assets, and mergers and acquisitions. These bank borrowings contain certain customary events of default, including breaches of terms of the facilities agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower, borrower's dissolution and insolvency, misleading statements or material omissions, cessation of all or a material part of the borrower's business, change in ownership of the borrower and cross defaults under other loans. The banks are entitled to demand immediate repayment of all or part of the outstanding loans and any accrued interest upon the occurrence of an event of default.

These USD, HKD and EUR bank borrowings are generally guaranteed by the Company.

2023 Notes

On 19 January 2018, we issued the 2.985% Senior Notes due 2023 in an aggregate principal amount of US$1,000 million for general corporate purposes under the Programme. The 2023 Notes were issued at 99.986% of the aggregate principal amount. Interest on the 2023 Notes will be payable semi-annually in arrears on 19 January and 19 July of each year. The 2023 Notes will mature on 19 January 2023. The 2023 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 24 April 2015 in connection with the Programme. The terms and conditions applicable to the 2023 Notes are set forth in the relevant pricing supplement.

2023 Floating Rate Notes

On 19 January 2018, we issued the 3-month USD LIBOR + 0.605% Senior Notes due 2023 in an aggregate principal amount of US$500 million for general corporate purposes under the Programme. The 2023 Floating Rate Notes were issued at 100.0% of the aggregate principal amount. Interest on the 2023 Floating Rate Notes will be 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. The 2023 Floating Rate Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 24 April 2015 in connection with the Programme. The terms and conditions applicable to the 2023 Floating Rate Notes are set forth in the relevant pricing supplement.

2024 Notes

On 11 April 2019, we issued the 3.280% Senior Notes due 2024 in an aggregate principal amount of US$1,250 million for general corporate purposes under the Programme. The 2024 Notes were issued at 99.991% of the aggregate principal amount. Interest on the 2024 Notes will be payable semi-annually in arrears on 11 April and 11 October of each year. The 2024 Notes will mature on 11 April 2024. The 2024 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 1 April 2019 in connection with the Programme. The terms and conditions applicable to the 2024 Notes are set forth in the relevant pricing supplement.

2024 Floating Rate Notes

On 11 April 2019, we issued the 3-month USD LIBOR + 0.910% Senior Notes due 2024 in an aggregate principal amount of US$750 million for general corporate purposes under the Programme. The 2024 Floating Rate Notes were issued at 100.0% of the aggregate principal amount. Interest on the 2024 Floating Rate Notes will be 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. The 2024 Floating Rate Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 1 April 2019 in connection with the Programme. The terms and conditions applicable to the 2024 Floating Rate Notes are set forth in the relevant pricing supplement.

2025 Notes

On 11 February 2015, we issued the 3.800% Senior Notes due 2025 in an aggregate principal amount of US$900 million for general corporate purposes under the Programme. The 2025 Notes were issued at 99.605% of the aggregate principal amount. Interest on the 2025 Notes will be payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes will mature on 11 February 2025. The 2025 Notes are constituted by, are subject to and have the benefit of a trust deed dated 10 April 2014 in connection with the Programme. The terms and conditions applicable to the 2025 Notes are set forth in the relevant pricing supplement.

TME 2025 Notes

On 3 September 2020, TME issued the 1.375% Notes due 2025 in an aggregate principal amount of US$300 million for general corporate purposes. The TME 2025 Notes were issued at 99.928% of the aggregate principal amount. Interest on the TME 2025 Notes will be payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2025 Notes will mature on 3 September 2025. The TME 2025 Notes are constituted by, are subject to and have the benefit of an indenture dated 3 September 2020.

2026 Notes

On 11 April 2019, we issued the 3.575% Senior Notes due 2026 in an aggregate principal amount of US$500 million for general corporate purposes under the Programme. The 2026 Notes were issued at 99.994% of the aggregate principal amount. Interest on the 2026 Notes will be payable semi-annually in arrears on 11 April and 11 October of each year. The 2026 Notes will mature on 11 April 2026. The 2026 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 1 April 2019 in connection with the Programme. The terms and conditions applicable to the 2026 Notes are set forth in the relevant pricing supplement.

January 2026 Notes

On 3 June 2020, we issued the 1.810% Senior Notes due 2026 in an aggregate principal amount of US$1,000 million for refinancing and general corporate purposes under the Programme. The January 2026 Notes were issued at 99.988% of the aggregate principal amount. Interest on the January 2026 Notes will be payable semi-annually in arrears on 26 January and 26 July of each year. The January 2026 Notes will mature on 26 January 2026. The January 2026 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 25 May 2020 in connection with the Programme. The terms and conditions applicable to the January 2026 Notes are set forth in the relevant pricing supplement.

2028 Notes

On 19 January 2018, we issued the 3.595% Senior Notes due 2028 in an aggregate principal amount of US$2,500 million for general corporate purposes under the Programme. The 2028 Notes were issued at 99.975% of the aggregate principal amount. Interest on the 2028 Notes will be payable semi-annually in arrears on 19 January and 19 July of each year. The 2028 Notes will mature on 19 January 2028. The 2028 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 24 April 2015 in connection with the Programme. The terms and conditions applicable to the 2028 Notes are set forth in the relevant pricing supplement.

2029 Notes

On 11 April 2019, we issued the 3.975% Senior Notes due 2029 in an aggregate principal amount of US$3,000 million for general corporate purposes under the Programme. The 2029 Notes were issued at 99.967% of the aggregate principal amount. Interest on the 2029 Notes will be payable semi-annually in arrears on 11 April and 11 October of each year. The 2029 Notes will mature on 11 April 2029. The 2029 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 1 April 2019 in connection with the Programme. The terms and conditions applicable to the 2029 Notes are set forth in the relevant pricing supplement.

2030 Notes

On 3 June 2020, we issued the 2.390% Senior Notes due 2030 in an aggregate principal amount of US$2,250 million for refinancing and general corporate purposes under the Programme. The 2030 Notes were issued at 99.973% of the aggregate principal amount. Interest on the 2030 Notes will be payable semi-annually in arrears on 3 June and 3 December of each year. The 2030 Notes will mature on 3 June 2030. The 2030 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 25 May 2020 in connection with the Programme. The terms and conditions applicable to the 2030 Notes are set forth in the relevant pricing supplement.

TME 2030 Notes

On 3 September 2020, TME issued the 2.000% Notes due 2030 in an aggregate principal amount of US$500 million for general corporate purposes. The TME 2030 Notes were issued at 99.595% of the aggregate principal amount. Interest on the TME 2030 Notes will be payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2030 Notes will mature on 3 September 2030. The TME 2030 Notes are constituted by, are subject to and have the benefit of an indenture dated 3 September 2020.

2035 Notes

On 15 July 2015, we issued the 4.700% Senior Notes due 2035 in an aggregate principal amount of US$100 million for general corporate purposes under the Programme. The 2035 Notes were issued at 99.359% of the aggregate principal amount. Interest on the 2035 Notes will be payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes will mature on 15 July 2035. The 2035 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 24 April 2015 in connection with the Programme. The terms and conditions applicable to the 2035 Notes are set forth in the relevant pricing supplement.

2038 Notes

On 19 January 2018, we issued the 3.925% Senior Notes due 2038 in an aggregate principal amount of US$1,000 million for general corporate purposes under the Programme. The 2038 Notes were issued at 99.959% of the aggregate principal amount. Interest on the 2038 Notes will be payable semi-annually in arrears on 19 January and 19 July of each year. The 2038 Notes will mature on 19 January 2038. The 2038 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 24 April 2015 in connection with the Programme. The terms and conditions applicable to the 2038 Notes are set forth in the relevant pricing supplement.

2049 Notes

On 11 April 2019, we issued the 4.525% Senior Notes due 2049 in an aggregate principal amount of US$500 million for general corporate purposes under the Programme. The 2049 Notes were issued at 99.967% of the aggregate principal amount. Interest on the 2049 Notes will be payable semi-annually in arrears on 11 April and 11 October of each year. The 2049 Notes will mature on 11 April 2049. The 2049 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 1 April 2019 in connection with the Programme. The terms and conditions applicable to the 2049 Notes are set forth in the relevant pricing supplement.

2050 Notes

On 3 June 2020, we issued the 3.240% Senior Notes due 2050 in an aggregate principal amount of US$2,000 million for refinancing and general corporate purposes under the Programme. The 2050 Notes were issued at 99.943% of the aggregate principal amount. Interest on the 2050 Notes will be payable semi-annually in arrears on 3 June and 3 December of each year. The 2050 Notes will mature on 3 June 2050. The 2050 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 25 May 2020 in connection with the Programme. The terms and conditions applicable to the 2050 Notes are set forth in the relevant pricing supplement.

2060 Notes

On 3 June 2020, we issued the 3.290% Senior Notes due 2060 in an aggregate principal amount of US$750 million for refinancing and general corporate purposes under the Programme. The 2060 Notes were issued at 99.934% of the aggregate principal amount. Interest on the 2060 Notes will be payable semi-annually in arrears on 3 June and 3 December of each year. The 2060 Notes will mature on 3 June 2060. The 2060 Notes are constituted by, are subject to and have the benefit of an amended and restated trust deed dated 25 May 2020 in connection with the Programme. The terms and conditions applicable to the 2060 Notes are set forth in the relevant pricing supplement.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our Directors, executive officers and substantial shareholders and, in each case, the companies with whom they are affiliated.

The Company and its subsidiaries from time to time engage in transactions with affiliates of the Company in the ordinary course of their business. It is the Company's policy to conduct these transactions on normal commercial terms and on an arm's-length basis.

Share Option Schemes and Share Award Schemes

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, for the purpose of providing incentives and rewards to its Directors, executives or officers, employees, consultants and other eligible persons.

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 December 2020, 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.

On 16 May 2007, the Company adopted the Post-IPO Option Scheme II. Pursuant to the Post-IPO Option Scheme II, the Board may, at its discretion, grant options to any eligible person to subscribe for shares in the Company. The Post-IPO Option Scheme II shall be valid and effective for a period of ten years commencing on its date of adoption. The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall not exceed 444,518,270 shares, 5% of the issued shares as at the date of shareholders' approval of the Post-IPO Option Scheme II. Options granted under the Post-IPO Option Scheme II will expire no later than the last day of the seven-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme II). Post-IPO Option Scheme II expired on 16 May 2017.

On 13 May 2009, the Company adopted the Post-IPO Option Scheme III. Pursuant to the Post-IPO Option Scheme III, the Board may, at its discretion, grant options to any eligible person (any senior executive or senior officer, director of any member of the Group or any invested entity and any consultant, adviser or agent of any member of the Board) to subscribe for shares in the Company. The Post-IPO Option Scheme III shall be valid and effective for a period of ten years commencing on its date of adoption. The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall not exceed 180,093,330 shares, 2% of the issued shares as at the date of shareholders' approval of this scheme. Options granted under the Post-IPO Option Scheme III will expire after the last day of the ten-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme III). Post-IPO Option Scheme III expired on 13 May 2019.

On 17 May 2017, the Company adopted the Post-IPO Option Scheme IV. Pursuant to the Post-IPO Option Scheme IV, the Board may, at its discretion, grant options to any eligible person to subscribe for shares in the Company. The Post-IPO Option Scheme IV shall be valid and effective for a period of ten years commencing on its date of adoption. The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme IV shall not exceed 379,099,339 shares, 4% of the issued shares as at the date of shareholders' approval of this scheme. Options granted under the Post-IPO Option Scheme IV will expire no later than the last day of the seven-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme IV).

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II, Post-IPO Option Scheme III, the Post-IPO Option Scheme IV and any other share option schemes of the Company must not in aggregate exceed 30% of issued shares from time to time. The maximum number of shares (issued and to be issued) in respect of which options may be granted under the Post-IPO Option Scheme II, Post-IPO Option Scheme III, the Post-IPO Option Scheme IV and any other share option schemes of the Company (whether exercised, cancelled or outstanding) to any eligible person in any 12-month period shall not exceed 1% of the issued shares from time to time unless such grant has been duly approved by an ordinary resolution of the shareholders in a general meeting at which the relevant eligible person and his associates are abstained from voting. In calculating the aforesaid limit of 1%, options that have lapsed shall not be counted.

During the years ended 31 December 2018, 2019 and 2020, 6,891,249 ordinary shares, 1,612,741 ordinary shares and 15,656,921 ordinary shares were exercised, respectively, pursuant to the share option schemes the Company has already adopted.

Share Award Schemes

On 13 December 2007, the Company adopted the 2007 Share Award Scheme, which was subsequently amended on 31 January 2008 and 13 May 2009, respectively. The Board may, at its absolute discretion, select any eligible persons (the "**Awarded Persons**") to participate in the 2007 Share Award Scheme. Pursuant to the 2007 Share Award Scheme, ordinary shares of the Company are acquired by an independent trustee at the cost of the Company or shares are allotted to the trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time. These shares are/will be held in trust for the Awarded Persons by the trustee until the end of each vesting period. Vested shares are/will be transferred at no cost to the Awarded Persons. The Awarded Persons are not entitled to the dividends on the awarded shares not yet transferred to them. Unless it is terminated by the Board, the 2007 Award Share Scheme shall be valid and effective for a term of fifteen years commencing on the adoption date according to the amendment on 13 May 2009. The number of shares to be awarded under the 2007 Share Award Scheme throughout its duration shall not exceed 2% of the issued share capital of the Company as at the adoption date. The maximum number of shares which may be awarded to an Awarded Person under the 2007 Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

On 13 November 2013, the Company adopted the 2013 Share Award Scheme. The Board may, at its absolute discretion, select any Awarded Persons to participate in the 2013 Share Award Scheme. Pursuant to the Share Scheme, ordinary shares of the Company are acquired by an independent trustee at the cost of the Company or shares are allotted to the trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time. These shares are/will be held in trust for the Awarded Persons by the trustee until the end of each vesting period. Vested shares are/will be transferred at no cost to the Awarded Persons. The Awarded Persons are not entitled to the dividends on the awarded shares not yet transferred to them. Unless it is terminated by the Board, the 2013 Share Award Scheme shall be valid and effective for a term of fifteen years commencing on the adoption date. The number of shares to be awarded under the 2013 Share Award Scheme throughout its duration shall not exceed 3% of the issued share capital of the Company as at the adoption date. The maximum number of shares which may be awarded to an Awarded Person under the 2013 Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

On 25 November 2019, the Company adopted the 2019 Share Award Scheme. The Board may, at its absolute discretion, select any Awarded Persons to participate in the 2019 Share Award Scheme. Pursuant to the Share Scheme, ordinary shares of the Company are acquired by an independent trustee at the cost of the Company or shares are allotted to the trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time. These shares are/will be held in trust for the Awarded Persons by the trustee until the end of each vesting period. Vested shares are/will be transferred at no cost to the Awarded Persons. The Awarded Persons are not entitled to the dividends on the awarded shares not yet transferred to them. Unless it is terminated by the Board, the 2019 Share Award

Scheme shall be valid and effective for a term of fifteen years commencing on the adoption date. The number of shares to be awarded under the 2019 Share Award Scheme throughout its duration shall not exceed 2% of the issued share capital of the Company as at the adoption date. The maximum number of shares which may be awarded to an Awarded Person under the 2019 Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

During the years ended 31 December 2018, 2019 and 2020, a total of 20,940,149 awarded shares, 53,096,782 awarded shares and 37,196,540 awarded shares were granted under the 2013 Share Award Scheme and 2019 Share Award Scheme.

Share Options and Awarded Shares Granted to Directors

For the year ended 31 December 2020, 4,399,815 share options were granted to one Director of the Company. For the year ended 31 December 2019, 3,506,580 share options were granted to one Director of the Company. For the year ended 31 December 2018, 3,215,800 share options were granted to one Director of the Company.

For the year ended 31 December 2020, 59,500 awarded shares were granted to five Independent Non-executive Directors of the Company. For the year ended 31 December 2019, 59,484 awarded shares were granted to five Independent Non-executive Directors of the Company. For the year ended 31 December 2018, 39,500 awarded shares were granted to four Independent Non-executive Directors of the Company.

Compensation of Directors

Our directors receive compensation including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contribution to pension plans for their services to the Company. See "*Directors and Management — Compensation of Directors and Senior Management*".

Related party transactions

Significant transactions with related parties

During the years ended 31 December 2018, 2019 and 2020, we had commercial arrangements with certain associates and joint ventures to provide Online Advertising services, FinTech and Business Services, and other services. During the year ended 31 December 2018, revenue recognised in connection with these services provided to associates and joint ventures were considered not significant compared to total revenue in the consolidated financial statements. During the year ended 31 December 2019, revenue recognised in connection with these services provided to associates and joint ventures of RMB6,189 million, RMB21,838 million and RMB2,016 million were recorded in the consolidated income statement, respectively. During the year ended 31 December 2020, revenue recognised in connection with these services provided to associates and joint ventures of RMB11,554 million (US$1,771 million), RMB25,885 million (US$3,967 million) and RMB2,629 million (US$403 million) were recorded in the consolidated income statement, respectively.

During the years ended 31 December 2018, 2019 and 2020, we had commercial arrangements with certain associates to purchase online game licenses and related services, film and television content and related services, FinTech and Business Services and others. During the year ended 31 December 2018, the transactions with associates were considered not significant. During the year ended 31 December 2019, the amounts relating to these contents and services received from associates were RMB4,620 million, RMB4,801 million, RMB1,174 million and RMB1,183 million, respectively. During the year ended 31 December 2020, the amounts relating to these contents and services received from associates were RMB8,266 million (US$1,267 million), RMB5,285 million (US$810 million), RMB3,058 million (US$469 million) and RMB1,489 million (US$228 million), respectively.

Year end balances with related parties

Our loans to investee companies and investee companies' shareholders amounted to RMB4,089 million, RMB1,384 million and RMB1,336 million (US$205 million) as at 31 December 2018, 2019 and 2020, respectively.

In addition, as at 31 December 2018, our trade receivables and other receivables from related parties were considered not significant. As at 31 December 2019, our trade receivables and other receivables from related parties were RMB8,723 million and RMB89 million, respectively. As at 31 December 2020, our trade receivables and other receivables from related parties were RMB9,840 million (US$1,508 million) and RMB67 million (US$10 million), respectively. As at 31 December 2018, our trade payables and other payables to related parties were considered not significant. As at 31 December 2019, our trade payables and other payables to related parties were RMB3,466 million and RMB284 million, respectively. As at 31 December 2020, our trade payables and other payables to related parties were RMB3,719 million (US$570 million) and RMB333 million (US$51 million), respectively.

During the year ended 31 December 2020, we had undertaken transactions relating to the provision of various services such as FinTech services, business services and online advertising to certain associates, which mainly engaged in various Internet businesses such as eCommerce, O2O platforms, FinTech services under, among others, certain business cooperation arrangements. As at 31 December 2018, contract liabilities relating to support to be offered to certain associates and joint ventures were considered not significant. As at 31 December 2019 and 2020, contract liabilities relating to support to be offered to certain associates and joint ventures were RMB3,636 million and RMB5,469 million (US$838 million), respectively.

Other than the transactions and balances disclosed above or elsewhere in the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2018, 2019 and 2020, and no other material balances with related parties as at 31 December 2018, 2019 and 2020.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on laws and relevant interpretation thereof in effect as at the date of this Offering Circular, all of which are subject to changes, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. None of the Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

Cayman Islands

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Payments of interest, premium and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest, premium and principal to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of Bearer Notes or a Global Note. Any Bearer Note or any Global Note itself will be stampable if it is executed in or brought into the Cayman Islands.

No stamp duty is payable in respect of the issue of the Registered Notes, an Individual Note Certificate or a Global Certificate. An instrument of transfer in respect of a Registered Note, an Individual Note Certificate or a Global Note Certificate is stampable if executed in or brought into the Cayman Islands.

People's Republic of China

The following summary describes certain PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of the Mainland of China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Taxation on Interest and Capital Gains

Under the EIT Law, an enterprise established outside of the PRC with a "*de facto* management body" within the PRC is deemed a "resident enterprise", meaning that it can be treated as a PRC enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define "*de facto* management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) ("**Circular 82**") issued by the State Administration of Taxation on 22 April 2009, and partially

abolished on 29 December 2017, provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a "resident enterprise" with a "*de facto* management body" located within the PRC if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within the PRC. Although the Circular 82 applies only to offshore enterprises controlled by enterprises or enterprise groups located within the PRC, not including those ultimately controlled by PRC individuals, the determining criteria set forth in the Circular 82 may reflect the SAT's general position on how the "de facto management body" test may be applied in determining the tax resident status of all offshore enterprises. On 27 July 2011, the State Administration of Taxation issued Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group (境外註冊中資控股居民企業所得税管理辦法(試行)) ("**Circular 45**") which was amended on 17 April 2015, 28 June 2016 and 15 June 2018, respectively, to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a PRC enterprise or PRC enterprise group". Circular 45 provides two ways for a foreign enterprise "controlled by a PRC enterprise or a PRC enterprise group" to be treated as a resident enterprise. First, the foreign enterprise may decide on its own that its *de facto* management body is located in the PRC based on the criteria set forth in Circular 82, and, if it makes such determination, it must apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise after its active investigation.

The Company holds its shareholders' meeting and board meetings outside the PRC and keeps its shareholders' list outside the PRC. However, some of the Company's directors and senior management are currently based inside the PRC. This may be relevant for the PRC tax authorities to determine whether it is a PRC resident enterprise for tax purposes.

Although it is unclear under PRC tax law whether the Company has a "de facto management body" located in the PRC for PRC tax purposes, it intends to take the position that it is not a PRC resident enterprise for tax purposes. The Company cannot assure you that it will not be considered to be a "resident enterprise" by the PRC tax authorities and, therefore, be subject to enterprise income tax at a rate of 25% on its global income. So long as the Company is not considered to be a PRC resident enterprise for EIT Law purposes, the payment of interest on the Notes to the non-PRC resident holders of the Notes will not be subject to PRC withholding tax. However, if the Company were determined to be a PRC resident enterprise, such interest payments and any gains from the sale of notes may be subject to PRC tax.

Under the EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10% is normally applicable to PRC-source income derived by nonresident enterprises. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC-source income if the enterprise or the establishment that pays or bears the interest is situated in the PRC. If the Company is deemed a PRC resident enterprise for tax purposes, interest paid to non-PRC resident note holders may be regarded as PRC-source and therefore be subject to PRC withholding tax at a rate of 10% for non-PRC resident enterprise note holders and 20% for non-PRC resident individual note holders. Any gains realised on the transfer of the Notes by such investors may be subject to PRC income tax at a rate of 10% for non-PRC resident enterprise note holders or 20% for non-PRC resident individual note holders, if the Company is deemed a PRC resident enterprise for tax purposes and such gains are regarded as PRC-sourced. In addition, if we were considered a PRC resident enterprise, interest payable by us to non-resident noteholders may be subject to PRC value added tax at a rate of 6% and related local levies, including educational surtax and urban maintenance and construction tax at a rate of up to 0.72%. Any PRC tax liability may be reduced by an applicable tax treaty or arrangement.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained or used outside the PRC, as is expected to be the case).

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

(i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes, it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. Subject to the completion of the Hong Kong legislative process to increase the stamp duty rate, the rate will be increased with effect from 1 August 2021 to 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser). In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

United States Federal Income Taxation

The following is a discussion of certain U.S. federal income tax consequences of the ownership and disposition of Notes to the U.S. Holders described below. This disclosure addresses only Notes that are denominated in U.S. dollars and issued in registered form. It does not address Notes issued in bearer form, which generally may not be offered or sold in the United States or its possessions or to U.S. persons (as defined for U.S. federal income tax purposes). A U.S. person that acquires a Bearer Note may be subject to adverse tax implications. This discussion applies only to Notes that are purchased by a U.S. Holder described below in their initial offering at the "issue price", which will equal the first price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money, and held as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a U.S. Holder in light of its particular circumstances, including the possible application of any special tax accounting rules set forth in Section 451 of the Code (as defined below), any alternative minimum tax or Medicare contribution tax considerations, or any tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers in securities;
- traders in securities that elect to use a mark-to-market method of tax accounting;

- persons holding Notes as part of a "straddle" or other integrated transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt organisations, "individual retirement accounts" and "Roth IRAs"; or
- persons owning Notes in connection with a trade or business conducted outside the United States.

If a partnership owns the Notes, the tax treatments of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships and partners in partnerships owning Notes should consult their tax advisers regarding the tax consequences of owning and disposing of Notes.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between the United States and the PRC (the "**Treaty**"), all as at the date hereof. These laws are subject to change, possibly with retroactive effect. Persons considering the purchase of Notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

This discussion applies only to Notes that are classified as indebtedness for U.S. federal income tax purposes. This discussion does not apply to every type of Note that may be issued under the Programme, including Dual Currency Notes, Index Linked Notes, Partly Paid Notes and any other Notes that are subject to different U.S. federal income tax consequences than those described below. Additional or alternative U.S. federal income tax consequences of owning such Notes may be addressed in the applicable Pricing Supplement.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Payments of Stated Interest. Stated interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below). Interest income earned by a U.S. Holder with respect to a Note will constitute foreign source income, which may be relevant to a U.S. Holder in calculating the U.S. Holder's foreign tax credit limitation. As described in "*Taxation — People's Republic of China*", if we were deemed to be a "resident enterprise" under PRC tax law, interest paid by us may be subject to PRC withholding tax. For U.S. federal income tax purposes, the amount of the interest income will include any amounts withheld in respect of PRC tax, and any Additional Amount paid with respect thereto. Subject to applicable limitations, which vary depending upon the U.S. Holder's circumstances, PRC income taxes withheld from interest payments (at a rate not exceeding the applicable rate provided in the Treaty, in the case of a U.S. Holder that is eligible for the benefits of the Treaty) generally will be creditable against a U.S. Holder's U.S. federal income tax liability. The rules governing foreign tax credits are complex and U.S. Holders should consult

their tax advisers regarding the creditability of foreign tax credits in their particular circumstances. Instead of claiming a credit, a U.S. Holder may elect to deduct any such PRC taxes in computing its taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

Special rules governing the treatment of interest paid with respect to Original Issue Discount Notes, certain Floating Rate Notes, and Short-Term Notes (each as defined below) are described below.

Original Issue Discount. A Note that is issued at an issue price less than its "stated redemption price at maturity" will be considered to have been issued at an original issue discount for U.S. federal income tax purposes (and will be referred to in this section as an "**Original Issue Discount Note**") unless the Note satisfies a *de minimis* threshold (as described below) or is a Short-Term Note (as defined below). The "stated redemption price at maturity" of a Note will equal the sum of all payments required under the Note other than payments of "qualified stated interest". "Qualified stated interest" is stated interest unconditionally payable as a series of payments in cash or property (other than in debt instruments of the Issuer) at least annually during the entire term of the Note and generally equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest or, subject to certain conditions, based on one or more floating rates or indices.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a prescribed *de minimis* amount (generally, 1/4 of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity) then the Note will not be considered to have original issue discount.

A U.S. Holder of an Original Issue Discount Note will be required to include any qualified stated interest payments in income in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes (as described in "— *Payments of Stated Interest*" above). In addition, a U.S. Holder of an Original Issue Discount Note will be required to include original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant-yield method based on a compounding of interest. Under this method, U.S. Holders of Original Issue Discount Notes generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including stated interest, original issue discount and de minimis original issue discount, as adjusted by any amortisable bond premium) in accordance with a constant-yield method based on the compounding of interest (a "**constant-yield election**").

Under applicable Treasury regulations, if the Issuer or the holder has an unconditional option to redeem a Note prior to its stated maturity date and certain other conditions are met, this option will be presumed to be exercised if, by utilising any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, in the case of the Issuer's option, the yield on the Note would be lower than its yield to the stated maturity date or, in the case of the holder's option, the yield on the Note would be higher than its yield to the stated maturity date. If this option is not in fact exercised, the Note would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date. The adjusted issue price of a Note is generally the issue price of the Note, increased by the amount of original issue discount previously includible in gross income of any holder and decreased by the amount of any payment previously made, other than a payment of qualified stated interest.

Floating Rate Notes

General. A Floating Rate Note generally will qualify as a "variable rate debt instrument" (a "**VRDI**") for U.S. federal income tax purposes if:

- the issue price does not exceed the total noncontingent principal payments due under the Floating Rate Note by more than a specified de minimis amount;
- it provides for stated interest, paid or compounded at least annually, at current values of:
  - one or more qualified floating rates,
  - a single fixed rate and one or more qualified floating rates,
  - a single objective rate, or
  - a single fixed rate and a single objective rate that is a qualified inverse floating rate, each as defined in the applicable Treasury regulations; and
- certain other conditions, as set forth in the applicable Treasury regulations, are satisfied.

In general, a "qualified floating rate" is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Note is denominated. In general, an "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula that is based on objective financial or economic information. A "qualified inverse floating rate" is any objective rate where such rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate.

Unless otherwise provided in the applicable Pricing Supplement, it is expected, and the discussion below assumes, that a Floating Rate Note should qualify as a VRDI. However, there is some uncertainty as to the proper treatment of a Floating Rate Note that provides for a possible replacement of its stated qualifying floating rate (*e.g.*, LIBOR) due to the rate's discontinuation. Under proposed Treasury regulations and recent IRS guidance, certain rate replacements would not affect the treatment of Notes that otherwise meet the requirements of the VRDI rules, provided that certain conditions set forth in the proposed regulations are met. There is no assurance that the Floating Rate Notes of any series will meet these conditions or that the Internal Revenue Service will not challenge the treatment of such Notes as VRDIs. If a Floating Rate Note does not qualify as a VRDI, the Floating Rate Note will be treated as a "contingent payment debt instrument" for U.S. federal income tax purposes. If the Company determines that a Floating Rate Note of any series should not be treated as a VRDI, the applicable Pricing Supplement will describe certain U.S. federal income tax consequences to U.S. Holders of owning and disposing of such Notes.

Floating Rate Notes That Provide for a Single Variable Rate. All stated interest on a Floating Rate Note will constitute qualified stated interest (as described under "— *Original Issue Discount*" above) and will be taxable accordingly if:

- the Floating Rate Note provides for stated interest at a single variable rate throughout the term thereof; and
- the stated interest on the Floating Rate Note is unconditionally payable in cash or other property (other than debt instruments of the issuer) at least annually.

Thus, such a Floating Rate Note will generally not be treated as issued with original issue discount unless the Floating Rate Note is issued at an issue price below its stated redemption price at maturity and the difference between the issue price and the stated redemption price at maturity is equal to or in excess of the specified *de minimis* amount described in "— *Original Issue Discount.*" For this purpose, if a Floating Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate and if the variable rate on the Floating Rate Note's issue date is intended to approximate the fixed rate (*e.g.*, the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 0.25%), then the fixed rate and the variable rate together will constitute a single variable rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Floating Rate Note (*e.g.*, two or more qualified floating rates with values within 0.25% of each other as determined on the issue date) will be treated as a single qualified floating rate.

If a Floating Rate Note that provides for stated interest at a single variable rate is issued with original issue discount, as discussed above, the amount of qualified stated interest and the amount of original issue discount that accrues during an accrual period on such a Floating Rate Note is determined under the rules applicable to fixed rate debt instruments, discussed under "— *Original Issue Discount*" above, by assuming that the variable rate is a fixed rate equal to:

- in the case of a qualified floating rate or qualified inverse floating rate, the value, as at the issue date, of the qualified floating rate or qualified inverse floating rate; or

- in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Floating Rate Note.

The qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period pursuant to the foregoing rules.

Floating Rate Notes That Provide for Multiple Rates. If a Floating Rate Note provides for multiple floating interest rates, then the applicable Pricing Supplement will describe certain U.S. federal income tax consequences to U.S. Holders of owning and disposing of such Notes.

Short-Term Notes. A Note that matures one year or less from its date of issuance (a "**Short-Term Note**") will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest. In general, a cash-method U.S. Holder of a Short-Term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so (but will be required to include in income any interest paid to such U.S. Holder). U.S. Holders that so elect and certain other U.S. Holders, including those that report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant-yield method based on daily compounding. In the case of a U.S. Holder that is not required and does not elect to include the discount in income currently, any gain realised on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant-yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, such U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry Short-Term Notes in an amount not exceeding the accrued discount that has not been included in income.

Amortisable Bond Premium. If a U.S. Holder purchases a Note for an amount that is greater than the sum of all amounts payable on the Note other than qualified stated interest, the U.S. Holder will be considered to have purchased the Note with amortisable bond premium equal to this excess. The U.S. Holder may elect to amortise this premium, using a constant-yield method, over the remaining term of the Note. Special rules may limit the amount of bond premium that can be amortized during certain accrual periods in the case of Notes that are subject to optional redemption. A U.S. Holder may generally use the

amortisable bond premium allocable to an accrual period to offset qualified stated interest required to be included in the U.S. Holder's income with respect to the Note in that accrual period. A U.S. Holder that elects to amortise bond premium must reduce its tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations held by the U.S. Holder on or after the first day of the taxable year in which the election is made and may be revoked only with the consent of the Internal Revenue Service.

If a U.S. Holder makes a constant-yield election (as described under "— *Original Issue Discount*" above) for a Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the U.S. Holder's debt instruments with amortisable bond premium and may be revoked only with the consent of the Internal Revenue Service with respect to debt instruments held or acquired after the election.

Sale, Exchange or Retirement of the Notes. Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. For these purposes, the amount realised does not include any amount attributable to accrued qualified stated interest, which will be taxed as interest as described under "— *Payments of Stated Interest*" above. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in the Note, increased by any original issue discount included in income and decreased by the amount of any bond premium previously amortised and any payments other than qualified stated interest previously received.

Except as described below, gain or loss realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Note for more than one year. An exception to this general rule applies in the case of a Short-Term Note to the extent of any accrued discount not previously included in the U.S. Holder's taxable income. See "— *Short-Term Notes*" above.

Gain or loss will generally be U.S.-source for purposes of computing a U.S. Holder's foreign tax credit limitation. Long-term capital gains recognised by non-corporate taxpayers are generally taxed at preferential rates. The deductibility of capital losses is subject to limitations. As described in "*Taxation — People's Republic of China*" above, if we were deemed to be a "resident enterprise" under PRC tax law, gain realised by a U.S. Holder on the disposition of Notes may be subject to PRC tax. In such case, if a U.S. Holder is eligible for the benefits of the Treaty, such U.S. Holder may be able to treat the gain as PRC-source under the Treaty. U.S. Holders should consult their tax advisers as to whether they would be able to credit any PRC tax on dispositions against their U.S. federal income tax liabilities in their particular circumstances.

Information Reporting and Backup Withholding. Information returns will generally be filed with the Internal Revenue Service in connection with payments of interest and proceeds from a sale or other disposition of the Notes that are made within the United States or through certain U.S. or U.S.-related financial intermediaries. A U.S. Holder may be subject to U.S. backup withholding on these payments if the U.S. Holder fails to provide its taxpayer identification number to the payor and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain individual U.S. Holders (and certain specified entities) may be required to report to the Internal Revenue Service certain information relating to their beneficial ownership of Notes not held through a U.S. financial institution. U.S. Holders who fail to report the required information could be subject to substantial penalties.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream or the CMU Service (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

DTC

DTC is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the clearance and settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealer, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to DTC Notes as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has a reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Transfer Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for its customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU Service

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Notes**") which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU Service is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Cap. 155) of Hong Kong.

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Notes. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream in any Notes held in the CMU Service will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU Service.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Series of Notes represented by a Global Note Certificate accepted in its book-entry settlement system. Upon the issue of any such Global Note Certificate, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Note Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Global Note Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream. Ownership of beneficial interests in a Global Note Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Note Certificate accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Note Certificate in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Regulation S Notes

Each purchaser of Bearer Notes or Unrestricted Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:

  (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and

  (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:

  (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or

  (b) to the Issuer; or,

  (c) in the case of Unrestricted Notes only, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB,

  in each case in accordance with any applicable securities laws of any state of the United States;

(iii) it understands that the Issuer, the Principal Paying Agent, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

On or prior to the fortieth day after the relevant issue date, Notes represented by an interest in an Unrestricted Global Note Certificate may be transferred to a person who wishes to hold such Notes in the form of an interest in a Restricted Global Note Certificate only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the Trust Deed) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. After such fortieth day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Global Note Certificate, as described above under "*Form of the Notes*".

Notes represented by an interest in a Restricted Global Note Certificate may also be transferred to a person who wishes to hold such Notes in the form of an interest in an Unrestricted Global Note Certificate, but only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the Trust Deed) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any interest in a Note represented by an Unrestricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in a Note represented by a Restricted Global Note Certificate will, upon transfer, cease to be an interest in a Note represented by an Unrestricted Global Note Certificate and become an interest in a Note represented by a Restricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by a Restricted Global Note Certificate.

Rule 144A Notes

Each purchaser of Restricted Notes in reliance on Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

(i) the purchaser is (a) a QIB, (b) acquiring the Notes for its own account or for the account of one or more QIBs, (c) not formed for the purpose of investing in the Notes or the Issuer and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to the Issuer or any of its affiliates, in each case in accordance with any applicable securities laws of any State of the United States and (2) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions applicable to the Restricted Notes;

(iii) the purchaser understands that the Restricted Global Note Certificate and any restricted Individual Note Certificate (a "Restricted Individual Note Certificate") will bear a legend to the following effect, unless the relevant Issuer determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) TO THE ISSUER OR ITS AFFILIATES.

(iv) if it is acquiring any Notes for the account of one or more QIBs the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

(v) the purchaser understands that the Issuer, the Principal Paying Agent, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Upon the transfer, exchange or replacement of a Restricted Global Note Certificate or a Restricted Individual Note Certificate, or upon specific request for removal of the legend, the Issuer will deliver only a Restricted Global Note Certificate or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the Registrar such satisfactory evidence (which may include a legal opinion) as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in a Restricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note Certificate will, upon transfer, cease to be an interest in a Restricted Global Note Certificate and become an interest in an Unrestricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in an Unrestricted Global Note Certificate.

Prospective purchasers that are QIBs are hereby notified that sellers of the Restricted Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

PRC CURRENCY CONTROLS

The following is a general description of certain currency controls in the PRC and is based on the law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal advice. It does not purport to be a complete analysis of all applicable currency controls in the PRC relating to the Notes. Prospective holders of Notes who are in any doubt as to PRC currency controls are advised to consult their own professional advisers.

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under the applicable PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Since July 2009, the PRC commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated jurisdictions including Hong Kong and Macau and Association of Southeast Asian Nations (ASZAN). On 17 June 2010, the PRC Government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) (關於擴大跨境貿易人民幣結算試點有關問題的通知(銀發[2010]186號)) (the "**Circular 186**"), pursuant to which (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover 20 provinces and cities, and (iii) the restriction on designated offshore districts has been lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle imports of goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only been effected by approved pilot enterprises in designated pilot districts in the PRC. In August 2011, the PRC government further expanded Renminbi cross-border trade settlement nationwide.

On 5 July 2013, PBOC issued the Circular on the Simplification of Renminbi Cross-border Business Processes and the Improvement of Relevant Policies (Yin Fa [2013] No. 168) (關於簡化跨境人民幣業務流程和完善有關政策的通知(銀發[2013]168號)) (the "**Circular 168**"), pursuant to which on the basis of three principles of "know your customer", "know your business", and "due diligence", domestic banks can directly handle the cross-border settlement by virtue of business vouchers provided by enterprises (except for enterprises on the key regulatory list of regulating Renminbi cross-border settlement in export goods trade) or Receipt/Payment Instructions on Renminbi Cross-border Settlement.

On 6 December 2013, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues concerning Improving the Foreign Exchange Administration of Trade Financing Business of Banks (國家外匯管理局關於完善銀行貿易融資業務外匯管理有關問題的通知) ("**Circular 44**"), which aims to strengthen banks' review and examination of legal compliance in trade financing as well as the systematic management of foreign exchange receipts by enterprises. However, on 28 August 2020, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Issuing the Guidelines for Current Account Foreign Exchange Business (2020 Edition) (國家外匯管理局關於印發經常專案外匯業務指引(2020年版)的通知) which abolished Circular 44.

The enforcement and application of Circular 186, Circular 168 and Circular 44 will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying Circular 186, Circular 168 and Circular 44 and impose conditions for settlement of current account items.

Capital Account Items

Under the applicable PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Settlements for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign-invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as filed with or approved by the relevant authorities. Foreign-invested enterprises or relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

On 7 April 2011, SAFE promulgated the Circular on Issues Concerning the Cross-Border RMB Capital Account Business Operation (關於規範跨境人民幣資本項目業務操作有關問題的通知) ("**SAFE Circular 38**"), which became effective on 1 May 2011. According to the SAFE Circular 38, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the Renminbi accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of a domestic residence of PRC, such onshore enterprise shall be required to submit the relevant commerce administrative authority's prior approval which shall clearly indicates such Renminbi transaction to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular 38 clarifies that the foreign debts borrowed, and the guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and guarantee regime. That said, the relevant PRC authorities may grant approval for a foreign entity to make a capital contribution or a shareholder's loan to a foreign-invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign-invested enterprise may be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

The Circular on Issues relating to Cross-border Direct Investments in Renminbi (關於跨境人民幣直接投資有關問題的通知) ("**MOFCOM RMB FDI**") promulgated by MOFCOM on 12 October 2011 has been abolished and replaced by Announcement of the Ministry of Commerce on Issues relating to Cross-border Renminbi Direct Investment (商務部關於跨境人民幣直接投資有關問題的公告) ("**Circular 87**") promulgated on 3 December 2013 and taken effect from 1 January 2014. Circular 87 releases some of the restrictions under MOFCOM RMB FDI Circular, stipulating that where a foreign investor applies for changing the original capital contribution currency from foreign currency to RMB, the examination and approval of the amendment of contracts and articles of association is not required.

On 13 October 2011, PBOC promulgated the Administration Measures for the Settlement of Foreign Direct Investment in RMB (外商直接投資人民幣結算業務管理辦法) ("**PBOC RMB FDI Measures**"), which was amended on 5 June 2015. Pursuant to the PBOC RMB FDI Measures, PBOC special approval for RMB FDI and shareholder loans which was previously required is no longer necessary. The PBOC RMB FDI Measures provide that, among others, foreign invested enterprises are required to conduct registrations with the local branch of PBOC within ten working days after obtaining the business licences for the purpose of Renminbi settlement, a foreign investor is allowed to open a Renminbi expense account to reimburse some expenses before the establishment of a foreign-invested enterprise and the balance in such an account can be transferred to the Renminbi capital account of such foreign-invested enterprise when it is established, commercial banks can remit a foreign investor's Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries out of the PRC after reviewing certain requisite documents, if a foreign investor intends to use its Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries, the foreign investor may open a Renminbi re-investment account to pool the Renminbi proceeds, and the PRC parties selling stake in domestic enterprises to foreign investors

can open Renminbi accounts and receive the purchase price in Renminbi paid by foreign investors. The PBOC RMB FDI Measures also state that the foreign debt quota of a foreign-invested enterprise includes its Renminbi debt and foreign currency debt from its offshore shareholders, offshore affiliates and offshore financial institutions, and a foreign invested enterprise may open a Renminbi account to receive its Renminbi proceeds borrowed offshore by submitting the Renminbi loan contract to the commercial bank and make repayments of principal of and interest on such debt in Renminbi by submitting certain documents as required to the commercial bank.

On 14 June 2012, the PBOC issued the Circular on Firming up the Detailed Operation Rules of RMB Settlement in Direct Foreign Investment (Yin Fa [2012] No. 165) (關於明確外商直接投資人民幣結算業務操作細則的通知(銀發[2012]165號)), which was amended on 5 June 2015 and 31 December 2020, pursuant to which, subject to the administrative provisions on bank settlement accounts, foreign investors should open an Renminbi basic deposit account, an Renminbi special deposit account and an Renminbi general deposit account of overseas institutions. Foreign-invested enterprises that are engaged in direct Renminbi investment business activities should choose a settlement bank as its main reporting bank to register its enterprise information and submit modified information to the branch office of PBOC in the location where they registered through the Renminbi cross-border receipt and payment information management system.

On 19 November 2012, SAFE issued the Circular on Further Improvement and Adjustment of the Policies for Foreign Exchange Administration relating to Direct Investment (關於進一步改進和調整直接投資外匯管理政策的通知) ("**Circular 59**"), as amended on 4 May 2015, 10 October 2018 and 30 December 2019, which simplified many of the registration and verification processes required to be undertaken in relation to Renminbi remittances involving a foreign-invested enterprise and now has been replaced by SAFE Circular 13 (as defined below) in terms of foreign exchange registration for foreign direct investment.

On 11 May 2013, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Promulgation of the Regulations on the Foreign Exchange Administration of Foreign Direct Investments in PRC together with the Supporting Documents thereof (國家外匯管理局關於印發外國投資者境內直接投資外匯管理規定及配套文件的通知) ("Circular 21"), as amended on 10 October 2018 and 30 December 2019, in order to further clarify the current foreign exchange regulations over foreign direct investment, which now has been replaced by SAFE Circular 13 (as defined below) in terms of foreign exchange registration for foreign direct investment.

On 23 June 2010, SAFE promulgated the Notice of the Adjustment to the Approval Authority on Certain Capital Items for Foreign Exchange Business (關於調整部分資本項目外匯業務審批權限的通知), which delegates additional approval authority to the local branches of SAFE.

Pursuant to Circular 168, domestic non-financial institutions may apply to the domestic bank for the Renminbi offshore lending settlement business. The domestic agent bank extends the Renminbi account financing maturity of overseas participating banks to one year and the financing ratio of the account shall not exceed 3% of the balance of various Renminbi deposits of this domestic agent bank at the end of last year. Fund remittance and transfer may be carried out between the Renminbi interbank current account opened by the overseas participating bank in the domestic agent bank and the Renminbi account opened by the overseas participating bank in the offshore clearing bank for Renminbi business due to the need of settlement. Fund remittance and transfer may be carried out among Renminbi clearing accounts opened by various offshore clearing banks for Renminbi business in the territory of the PRC due to the need of settlement.

On 10 January 2014, SAFE issued the Notice of Further Improvement and Upgrade of Foreign Exchange Management Policy on Capital Account Items (國家外匯管理局關於進一步改進和調整資本項目外匯管理政策的通知), which further relaxed restrictions upon offshore lending activities of domestic enterprises and simplifies the administration process for the overseas remittance of profits generated by domestic institutions.

The Notice on Administration over Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) ("**Circular 19**") promulgated by SAFE on 30 March 2015 and became effective on 1 June 2015 and amended on 30 December 2019 in terms of payment and settlement of foreign exchange capital by foreign-invested companies. Circular 19 further simplifies the procedures of and delegates to the banks to deal with the settlement of the foreign exchange capital of foreign-invested companies.

On 13 February 2015, SAFE promulgated the Notice on Further Simplification and Improvement of Foreign Exchange Management Policy on Foreign Director Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) ("**SAFE Circular 13**"), which was amended on 30 December 2019. The SAFE Circular 13 further relaxed restrictions upon foreign exchange registration under foreign direct investment and simplified the administration process for the investment and currency exchange into PRC under foreign direct investment by cancelling certain approval requirements and delegating certain authority to the banks.

On 9 June 2016, SAFE promulgated the Circular on the State Administration of Foreign Exchange on Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) ("**SAFE Circular 16**"), which further removed certain restrictions previously provided under several SAFE circulars, in respect of conversion by a foreign invested enterprise of foreign currency registered capital into RMB and use of such RMB capital.

On 12 January 2017, PBOC promulgated the Notice on Full-Coverage Macro-prudent Management of Cross-border Financing (Yin Fa [2017] No. 9) (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知(銀發[2017]9號)) ("**Notice 9**"). As at the date of the promulgation of the Notice 9, a transition period of one year is set for foreign-invested enterprises and foreign financial institutions and during such transition period, foreign-invested enterprises and foreign financial institutions may apply either the current cross-border financing management mode or the mode in Notice 9 at its sole discretion. After the end of the transition period, foreign financial institutions shall automatically apply the mode in Notice 9, and the cross-border financing management mode for foreign-invested enterprises will be determined by the PBOC and SAFE after assessment based on the overall implementation of Notice 9.

On 26 January 2017, SAFE issued the Notice on Further Promoting Foreign Exchange Management Revolution and Improving the Examination of Authenticity and Compliance (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) ("**Circular 3**"). Circular 3 expanded the scope of settlement of exchange for domestic loans in foreign currencies, and allowed the overseas loans under domestic guarantee to be transmitted into the territory of the PRC by way of loan, equity investment or other methods. In addition, Circular 3 further emphasised the examination of authenticity and compliance of outbound direct investment.

On 25 October 2019, the SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment (關於進一步促進跨境貿易投資便利化的通知) ("**Circular 28**"), which, among other things, allows all foreign-invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment.

As new regulations, the above regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

The Dealers have, in an amended and restated dealer agreement (the "**Dealer Agreement**") dated 24 April 2015 (with an amendment to the Dealer Agreement dated 1 April 2019, 25 May 2020 and another amendment to the Dealer Agreement dated 13 April 2021), agreed with the Issuer a basis upon which they or any of them may from time to time agree to severally, and not jointly, subscribe Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the "**Issue Price**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer has agreed to reimburse the Arrangers certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers certain of their expenses incurred in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In connection with the issue of any Series of Notes, the Dealer(s) (if any) named as the stabilising manager(s) (the "**Stabilising Manager(s)**") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and rules, over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes.

In connection with each Series of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or their respective subsidiaries or affiliates at the same time as the offer and sale of each Series of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Series of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Series of Notes).

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps,

repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes.

Selling Restrictions

United States of America

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or for the account or benefit of any U.S. person (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Dealer's compliance with United States securities laws

In relation to each Tranche of Notes:

(a) *Offers/sales only in accordance with Regulation S*: Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer that it has offered and sold the Notes, and will offer and sell the Notes:

(i) as part of their distribution, at any time; and

(ii) otherwise, until 40 days after the issue date in respect of the relevant Notes (the period described herein as "**distribution compliance period**"),

only in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that:

(A) neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes; and

(B) it and its affiliates have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act; and

(b) *Prescribed form of confirmation*: Each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer that, at or prior to confirmation of sale, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration which purchases Notes from it during the distribution compliance period a confirmation or notice in substantially the following form:

"The Securities covered hereby have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Tranche of Notes of which such Notes are a part, as determined by Name of Dealer or Dealers, as the case may be, except in either case pursuant to a valid exemption from registration in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S";

(c) *Completion of distribution*: Each Dealer which has purchased Notes of such Tranche in accordance with the related subscription agreement, shall determine and certify to the Principal Paying Agent or the Issuer the completion of the distribution of the Notes of such Tranche purchased by it. In the case of a subscription agreement between the Issuer and more than one Dealer, the Principal Paying Agent or the Issuer shall notify each relevant Dealer when all relevant Dealers have certified as provided in this paragraph. In order to facilitate compliance by each Dealer with the foregoing, the Issuer undertakes that, prior to such certification with respect to such Tranche, it will notify each Dealer in writing of each acceptance by the Issuer of an offer to purchase and of any issuance of, Notes or other debt obligations of the Issuer which are denominated in the same currency or composite currency and which have substantially the same interest rate and maturity date as the Notes of such Tranche;

(d) *Placing of Restricted Registered Notes*: Each Dealer may directly or through their respective affiliates arrange for the placing of Restricted Notes in the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act) pursuant to Rule 144A under the Securities Act and in accordance with the provisions of this Agreement, provided that each person to whom Restricted Notes are offered or sold is, or such Dealer reasonably believes each such person to be, a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer and provided further that the aggregate principal amount of Restricted Notes sold by such Dealer to each Qualified Institutional Buyer pursuant to this paragraph is not less than US$200,000 (or its equivalent in other currencies). In addition, the affiliate through which the mandated Dealer arranges for the placing of Restricted Notes in the United States or (as the case may be) such other Dealer or its affiliate shall be a U.S. broker-dealer that is registered under the Exchange Act; and

(e) *No Solicitation*: Each Dealer has represented, warranted and undertaken to the Issuer that neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has solicited or will solicit any offer to buy or offer to sell the Notes by any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act) in the United States.

Dealers' compliance with the United States tax laws

Where the relevant Pricing Supplement for Bearer Notes specifies that the D Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of the D Rules. Where the relevant Pricing Supplement for Bearer Notes specifies that the C Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of C Rules. Where the relevant Pricing Supplement specifies that neither the C Rules or D Rules are applicable, the Notes will not be issued in accordance with the provisions of either the D Rules or the C Rules.

The D Rules

Where the D Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Series of Notes, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer that:

(a) *Restrictions on offers etc.*: Except to the extent permitted under the D Rules:

(i) *No offers etc. to United States or United States persons*: It has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a United States person; and

(ii) *No delivery of Definitive Notes in the United States*: It has not delivered and will not deliver in definitive form within the United States or its possessions any Notes sold during the restricted period,

(b) *Internal compliance procedures*: It has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) *Additional provision if Dealer is a United States person*: If it is a United States person, it is acquiring the Notes for the purposes of resale in connection with their original issuance and, if it retains Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulation §1.163 — 5(c)(2)(i)(D)(6) or rules in substantially the same form as United States Treasury Regulation §1.163 — 5(c)(2)(i)(D)(6) for purposes of Section 4701 of the U.S. Internal Revenue Code;

(d) *Affiliates*: With respect to each affiliate of such Dealer that acquires Notes from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer that it will obtain from such affiliate for the benefit of the Issuer the representations, warranties and undertakings contained in paragraph (a) (*Restrictions on offers, etc.*), paragraph (b) (*Internal procedures*) paragraph (c) (*Additional provision if Dealer is a United States person*) and paragraph (d) (*Affiliates*); and

(e) *Contracts*: With respect to each person, other than the Dealer's affiliate, with whom such Dealer enters into a written contract, as defined in United States Treasury Regulation §1.163 — 5(c)(2)(i)(D)(4) or any successor regulation in substantially the same form, such Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer that it will obtain from such person for the benefit of the Issuer the representations, warranties and undertakings contained in paragraph (a) (Restrictions on offers, etc.), paragraph (b) (Internal procedures) and paragraph (c) (Additional provision if United States person).

Notes issued pursuant to the D Rules and any Coupons and Talons appertaining thereto will bear the following legend:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATION PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The C Rules

Where the C Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Series of Notes, the Notes must, in accordance with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to Issuer that, in connection with the original issuance of the Notes:

(a) *No offers etc. in United States*: It has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and

(b) *No communications with United States*: It has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Notes.

Interpretation

Terms used in the paragraph "*Dealers' compliance with United States securities laws*" have the meanings given to them by Regulation S under the Securities Act. Terms used in the paragraphs "*The D Rules*" and "*The C Rules*" have the meanings given to them by the United States Internal Revenue Code and regulations thereunder, including the C Rules and the D Rules.

Index- or currency-linked Notes

Each issuance of index- or currency-linked Notes shall be subject to additional U.S. selling restrictions as the relevant Dealer(s) shall agree as a term of the issuance and purchase of such Notes. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer (severally, and not jointly) has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

  (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the EU Prospectus Regulation; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

EU Prospectus Regulation public offer selling restriction

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA" as "Not Applicable", in relation to each Member State of the European Economic Area (each, a "**Relevant State**"), each Dealer (severally, and not jointly) has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of this offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant State, except that it may make an offer of such Notes to the public in that Relevant State:

(a) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;

(b) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) *Other exempt offers*: at any time in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation.

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression EU Prospectus Regulation means Regulation (EU) 2017/1129, as amended.

Prohibition of sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer (severally, and not jointly) has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

i. a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

ii. a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

iii. not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

UK Prospectus Regulation public offer selling restriction

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer (severally, and not jointly) has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom, except that it may make an offer of such Notes to the public in the United Kingdom:

(a) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the UK Prospectus Regulation;

(b) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) *Other exempt offers*: at any time in any other circumstances falling within section 86 of the FSMA.

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "UK Prospectus Regulation" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Selling Restrictions addressing additional United Kingdom securities laws

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

(a) *No deposit-taking*: In relation to any Notes having a maturity of less than one year:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

(b) *Financial promotion*: It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, if it was not an authorised person, apply to the Issuer.

(c) *General compliance*: It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Mainland of China

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the Mainland of China as part of the initial distribution of the Notes.

Hong Kong

In relation to each Series of Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the SFO, other than to "professional investors" as defined in Chapter 37 of the Rules Governing the Listing of Securities on the SEHK; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**Companies Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in Chapter 37 of the Rules Governing the Listing of Securities on the SEHK.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act no. 25 of 1948, as amended) (the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other relevant laws and regulations of Japan.

Singapore

This Offering Circular has not been registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the securities or securities-based derivatives contracts (each as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person as defined in the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

The Netherlands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular, as completed by the Pricing Supplement in relation thereto, to the public in the Netherlands, unless such offer is made exclusively to persons or legal entities which are qualified investors as defined in the EU Prospectus Regulation, and provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of the above provision, the expressions (i) an "offer of Notes to the public" in relation to any Notes in the Netherlands and (ii) "EU Prospectus Regulation" have the meaning given to them above in the paragraph headed with "*Prohibition of Sales to EEA Retail Investors*".

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes unless the Issuer is listed on the Cayman Islands Stock Exchange.

Canada

Resale Restrictions

The distribution of the Notes in Canada is being made only in the provinces of Ontario, Quebec, Alberta and British Columbia on a private placement basis exempt from the requirement that the Issuer prepares and files a prospectus with the securities regulatory authorities in each province where trades of the Notes are made. Any resale of the Notes in Canada must be made under applicable securities laws which may vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the securities.

Representations of Canadian Purchasers

By purchasing the Notes in Canada and accepting delivery of a purchase confirmation, a purchaser is representing to the Issuer and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the Notes without the benefit of a prospectus qualified under those securities laws as it is an "accredited investor" as defined under National Instrument 45-106 — Prospectus Exemptions;

- the purchaser is a "permitted client" as defined in National Instrument 31-103 — Registration Requirements, Exemptions and Ongoing Registrant Obligations;

- where required by law, the purchaser is purchasing as principal and not as agent; and

- the purchaser has reviewed the text above under "Resale Restrictions".

Conflicts of Interest

Canadian purchasers are hereby notified that the Dealers are and the further Dealers appointed under the Programme will be relying on the exemption set out in section 3A.3 or 3A.4, if applicable, of National Instrument 33-105 — Underwriting Conflicts from having to provide certain conflict of interest disclosure in this Offering Circular.

Statutory Rights of Action

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the offering documents (including any amendment thereto) such as this Offering Circular contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser of these securities in Canada should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

Enforcement of Legal Rights

All of the Issuer's directors and officers as well as the experts named herein and the Issuer may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the Issuer or those persons. All or a substantial portion of the Issuer's assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Issuer or those persons in Canada or to enforce a judgment obtained in Canadian courts against the Issuer or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of the Notes should consult their own legal and tax advisers with respect to the tax consequences of an investment in the Notes in their particular circumstances and about the eligibility of the Notes for investment by the purchaser under relevant Canadian legislation.

General

If a jurisdiction requires that an offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

These selling restrictions may be modified by the agreement of each of the Issuer and the Dealer following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. Listing

The Programme is listed on the SEHK by way of debt issues to Professional Investors only during the 12-month period after the date of the Offering Circular. The issue price of Notes listed on the SEHK will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the SEHK are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies).

2. Authorisation

The establishment of the Programme and the issue of the Notes thereunder were authorised by resolutions of the board of directors of the Issuer passed on 28 March 2014, 21 April 2015, 21 March 2018 and 28 March 2021. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

3. Auditor

The Issuer's audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, Certified Public Accountants, the independent auditor of the Issuer, as stated in its reports appearing herein.

4. No Material Adverse Change

Save as disclosed in this Offering Circular, there has been no material adverse change in the business of the Group since 31 December 2020.

5. Documents on Display

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Issuer at Tencent Binhai Towers, No. 33 Haitian 2nd Road, Nanshan District, Shenzhen, 518054, the PRC and the specified office of the Principal Paying Agent at Level 60, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong for so long as the Notes are capable of being issued under the Programme:

(i) the memorandum and articles of association of the Issuer;

(ii) the audited consolidated financial statements of the Issuer for the years ended 31 December 2018, 2019 and 2020;

(iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited) published subsequently to such audited annual financial statements, of the Issuer;

(iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area and the United Kingdom nor offered in the European Economic Area or in the United Kingdom in circumstances where a prospectus is required to be published under the EU Prospectus Regulation or UK Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Notes and identity);

(v) a copy of this Offering Circular together with any supplement to this Offering Circular;

(vi) the amended and restated Trust Deed dated 25 May 2020 (which contain the forms of the Notes in global and definitive form);

(vii) the amended and restated Issue and Paying Agency Agreement dated 24 April 2015;

(viii) the amended and restated Dealer Agreement dated 24 April 2015 (with an amendment to the Dealer Agreement dated 1 April 2019, 25 May 2020 and 13 April 2021); and

(ix) the Programme Manual.

6. Clearing of the Notes

The Notes have been accepted for clearance through the Euroclear and Clearstream systems (which are the entities in charge of keeping the records). We may also apply to have Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. In addition, we may make an application for any Restricted Notes or DTC Unrestricted Notes to be accepted for trading in book-entry form by DTC. Acceptance by DTC of such Notes will be confirmed in the relevant Notes. The relevant ISIN, the Common Code, the Committee on the Uniform Security Identification Procedure ("**CUSIP**") number and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

7. Cayman Islands Data Protection

The Issuer has certain duties under the Data Protection Act, 2017 of the Cayman Islands (the "**DPA**") based on internationally accepted principles of data privacy.

Prospective investors should note that, by virtue of making investments in the Notes and the associated interactions with the Issuer and its affiliates and/or delegates, or by virtue of providing the Issuer with personal information on individuals connected with the investor (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents) such individuals will be providing the Issuer and its affiliates and/or delegates with certain personal information which constitutes personal data within the meaning of the DPA. The Issuer shall act as a data controller in respect of this personal data and its affiliates and/or delegates, may act as data processors (or data controllers in their own right in some circumstances).

By investing in the Notes, the Noteholders shall be deemed to acknowledge that they have read in detail and understood the Privacy Notice set out below and that such Privacy Notice provides an outline of their data protection rights and obligations as they relate to the investment in the Notes.

Oversight of the DPA is the responsibility of the Ombudsman's office of the Cayman Islands. Breach of the DPA by the Issuer could lead to enforcement action by the Ombudsman, including the imposition of remediation orders, monetary penalties or referral for criminal prosecution.

Privacy Notice

Introduction

The purpose of this notice is to provide Noteholders with information on the Issuer's use of their personal data in accordance with the DPA.

In the following discussion, "Issuer" refers to the Issuer and its affiliates and/or delegates, except where the context requires otherwise.

Investor Data

By virtue of making an investment in the Issuer and a Noteholder's associated interactions with the Issuer (including any subscription (whether past, present of future), including the recording of electronic communications or phone calls where applicable) or by virtue of a Noteholder otherwise providing the Issuer with personal information on individuals connected with the Noteholder as an investor (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents), the Noteholder will provide the Issuer with certain personal information which constitutes personal data within the meaning of the DPA ("Investor Data"). The Issuer may also obtain Investor Data from other public sources. Investor Data includes, without limitation, the following information relating to a Noteholder and/or any individuals connected with a Noteholder as an investor: name, residential address, email address, contact details, corporate contact information, signature, nationality, place of birth, date of birth, tax identification, credit history, correspondence records, passport number, bank account details, source of funds details and details relating to the Noteholder's investment activity.

In the Issuer's use of Investor Data, the Issuer will be characterised as a "data controller" for the purposes of the DPA. The Issuer's affiliates and delegates may act as "data processors" for the purposes of the DPA.

Who this Affects

If a Noteholder is a natural person, this will affect such Noteholder directly. If a Noteholder is a corporate investor (including, for these purposes, legal arrangements such as trusts or exempted limited partnerships) that provides the Issuer with Investor Data on individuals connected to such Noteholder for any reason in relation to such Noteholder's investment with the Issuer, this will be relevant for those individuals and such Noteholder should transmit the content of this Privacy Notice to such individuals or otherwise advise them of its content.

How the Issuer May Use a Noteholder's Personal Data

The Issuer, as the data controller, may collect, store and use Investor Data for lawful purposes, including, in particular:

(i) where this is necessary for the performance of the Issuer's rights and obligations under any subscription agreements or purchase agreements;

(ii) where this is necessary for compliance with a legal and regulatory obligation to which the Issuer is subject (such as compliance with anti-money laundering and FATCA or the Common Reporting Standard requirements); and/or

(iii) where this is necessary for the purposes of the Issuer's legitimate interests and such interests are not overridden by the Noteholder's interests, fundamental rights or freedoms.

Should the Issuer wish to use Investor Data for other specific purposes (including, if applicable, any purpose that requires a Noteholder's consent), the Issuer will contact the applicable Noteholders.

Why the Issuer May Transfer a Noteholder's Personal Data

In certain circumstances the Issuer and/or its authorised affiliates or delegates may be legally obliged to share Investor Data and other information with respect to a Noteholder's interest in the Issuer with the relevant regulatory authorities such as the Cayman Islands Monetary Authority or the Tax Information Authority. They, in turn, may exchange this information with foreign authorities, including tax authorities.

The Issuer anticipates disclosing Investor Data to others who provide services to the Issuer and their respective affiliates (which may include certain entities located outside the Cayman Islands or the European Economic Area), who will process a Noteholder's personal data on the Issuer's behalf.

The Data Protection Measures the Issuer Takes

Any transfer of Investor Data by the Issuer or its duly authorised affiliates and/or delegates outside of the Cayman Islands shall be in accordance with the requirements of the DPA.

The Issuer and its duly authorised affiliates and/or delegates shall apply appropriate technical and organisational information security measures designed to protect against unauthorised or unlawful processing of Investor Data, and against accidental loss or destruction of, or damage to, Investor Data.

The Issuer shall notify a Noteholder of any Investor Data breach that is reasonably likely to result in a risk to the interests, fundamental rights or freedoms of either such Noteholder or those data subjects to whom the relevant Investor Data relates.

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The consolidated financial statements set forth herein have been reproduced from the Group's annual reports for the years ended 31 December 2018, 2019 and 2020. The page references are references to pages set forth in such annual report.

羅兵咸永道

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 164 to 304, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

- Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual items
- Impairment assessments of goodwill, investments in associates and joint ventures
- Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual items Refer to Note 2.29(a), 4(a) and 5(b) to the consolidated financial statements The Group recognises revenue from sales of virtual items to the users in respect of value-added services rendered on the Group's online platforms. The relevant revenue is recognised over the lifespans of the respective virtual items determined by the management, on an item by item basis, with reference to the expected users' relationship periods or the stipulated period of validity of the relevant virtual items, depending on the terms of the virtual items. During the year ended 31 December 2020, majority of the Group's revenue from value-added services was contributed from online games and was predominately derived from the sales of virtual items. We focused on this area due to the fact that management applied significant judgments in determining the expected users' relationship periods for certain virtual items. These judgments included (i) the determination of key assumptions applied in the expected users' relationship periods, including but not limited to historical users' consumption patterns, churn rates and reactivity on marketing activities, games life-cycle, and the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected users' relationship periods.	We discussed with management and evaluated their judgments on key assumptions in determining the estimated lifespans of the virtual items that were based on the expected users' relationship periods. We tested, on a sample basis, key controls in respect of the recognition of revenue from sales of virtual items, including management's review and approval of (i) determination of the estimated lifespans of new virtual items prior to their launches; and (ii) changes in the estimated lifespans of existing virtual items based on periodic reassessment on any indications triggering such changes. We also assessed the data generated from the Group's information system supporting the management's review, including tested the information system logic for generation of reports, and checked, on a sample basis, the monthly computation of revenue recognised on selected virtual items generated directly from the Group's information system. We assessed, on a sample basis, the expected users' relationship periods adopted by management by testing the data integrity of historical users' consumption patterns and calculation of the churn rates. We also evaluated the consideration made by management in determining the underlying assumptions for expected users' relationship periods with reference to historical operating and marketing data of the relevant games. We also assessed, on a sample basis, the historical accuracy of the management's estimation process by comparing the actual users' relationship periods for the year against the original estimation for selected virtual items. We found that the results of our procedures performed to be materially consistent with management's supporting documentation.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and joint ventures Refer to Notes 2.13(a), 2.15, 4(b), 20, 21 and 22 to the consolidated financial statements As at 31 December 2020, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB108,623 million, RMB297,609 million and RMB7,649 million, respectively. Impairment of RMB4,205 million, RMB5,254 million and RMB1,388 million had been provided for against the carrying amounts of goodwill, investments in associates and investments in joint ventures, respectively, during the year ended 31 December 2020. We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgments were required by management (i) to identify whether any impairment indicators existed for any of these assets during the year; (ii) to determine the appropriate impairment approaches, i.e. fair value less costs of disposal or value in use; and (iii) to select key assumptions to be adopted in the valuation models, including discounted cash flows and market approach, for the impairment assessments.	We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information. We also tested, on a sample basis, key controls in respect of the impairment assessments, including the determination of appropriate impairment approaches, valuation models and assumptions and the calculation of impairment provisions, which we found no material exceptions. Management adopted different valuation models, on a case by case basis, in carrying out the impairment assessments, mainly including discounted cash flows and market approach. We assessed, on a sample basis, the basis management used to identify separate groups of cash generating units that contain goodwill, the impairment approaches and the valuation models used in management's impairment assessments, which we found them to be appropriate. In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using discounted cash flows, we assessed the key assumptions adopted including revenue growth rates, profit margins, discount rates and other assumptions by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable industry/business data external to the Group. We assessed certain of these key assumptions with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities	
Refer to Notes 3.3, 4(c), 24, 25, 38 to the consolidated financial statements As at 31 December 2020, the Group's financial assets and financial liabilities which were carried at fair value mainly comprised financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities of approximately RMB172,537 million, RMB213,091 million and RMB5,309 million, respectively, of which approximately RMB152,897 million of these financial assets and approximately RMB3,352 million of these financial liabilities were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". We focused on this area due to the high degree of judgment required in determining the respective fair values of Level 3 financial instruments, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation.	In respect of the fair value measurement of Level 3 financial instruments, we tested the key controls, on a sample basis, in relation to the valuation process including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review, which we found no material exceptions. We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested, on a sample basis, valuation of Level 3 financial instruments as at 31 December 2020 by evaluating the underlying assumptions and inputs including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) as well as underlying supporting documentation. We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. We found that the valuation methodology of Level 3 financial instruments is acceptable and the assumptions made by management are supported by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'Million	2019 RMB'Million
Revenues			
Value-added Services		**264,212**	199,991
Online Advertising		**82,271**	68,377
FinTech and Business Services		**128,086**	101,355
Others		**7,495**	7,566
	5	**482,064**	377,289
Cost of revenues	8	**(260,532)**	(209,756)
Gross profit		**221,532**	167,533
Interest income	6	**6,957**	6,314
Other gains, net	7	**57,131**	19,689
Selling and marketing expenses	8	**(33,758)**	(21,396)
General and administrative expenses	8	**(67,625)**	(53,446)
Operating profit		**184,237**	118,694
Finance costs, net	9	**(7,887)**	(7,613)
Share of profit/(loss) of associates and joint ventures, net	10	**3,672**	(1,681)
Profit before income tax		**180,022**	109,400
Income tax expense	11	**(19,897)**	(13,512)
Profit for the year		**160,125**	95,888
Attributable to:			
Equity holders of the Company		**159,847**	93,310
Non-controlling interests		**278**	2,578
		160,125	95,888
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	12(a)	**16.844**	9.856
– diluted	12(b)	**16.523**	9.643

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB'Million	RMB'Million
Profit for the year	**160,125**	95,888
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
Share of other comprehensive income of associates and joint ventures	**334**	125
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates	**(3)**	(3)
Currency translation differences	**(7,262)**	3,089
Other fair value losses	**(1,552)**	(2,139)
Items that will not be subsequently reclassified to profit or loss		
Net gains from changes in fair value of financial assets at fair value through other comprehensive income	**130,525**	23,119
Currency translation differences	**(1,285)**	–
Other fair value gains/(losses)	**291**	(178)
	121,048	24,013
Total comprehensive income for the year	**281,173**	119,901
Attributable to:		
Equity holders of the Company	**277,834**	116,670
Non-controlling interests	**3,339**	3,231
	281,173	119,901

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	As at 31 December 2020 RMB'Million	2019 RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	**59,843**	46,824
Land use rights	17	**16,091**	15,609
Right-of-use assets	18	**12,929**	10,847
Construction in progress	19	**4,939**	3,935
Investment properties		**583**	855
Intangible assets	20	**159,437**	128,860
Investments in associates	21	**297,609**	213,614
Investments in joint ventures	22	**7,649**	8,280
Financial assets at fair value through profit or loss	24	**165,944**	128,822
Financial assets at fair value through other comprehensive income	25	**213,091**	81,721
Prepayments, deposits and other assets	26	**24,630**	23,442
Other financial assets	27	**4**	–
Deferred income tax assets	28	**21,348**	18,209
Term deposits	29	**31,681**	19,000
		1,015,778	700,018
Current assets			
Inventories		**814**	718
Accounts receivable	30	**44,981**	35,839
Prepayments, deposits and other assets	26	**40,321**	27,840
Other financial assets	27	**1,133**	375
Financial assets at fair value through profit or loss	24	**6,593**	7,114
Term deposits	29	**68,487**	46,911
Restricted cash	31	**2,520**	2,180
Cash and cash equivalents	31	**152,798**	132,991
		317,647	253,968
Total assets		**1,333,425**	953,986

Consolidated Statement of Financial Position

As at 31 December 2020

		As at 31 December	
		2020	2019
	Note	**RMB'Million**	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	32	**–**	–
Share premium	32	**48,793**	35,271
Shares held for share award schemes	32	**(4,412)**	(4,002)
Other reserves	33	**121,139**	16,786
Retained earnings		**538,464**	384,651
		703,984	432,706
Non-controlling interests		**74,059**	56,118
Total equity		**778,043**	488,824
LIABILITIES			
Non-current liabilities			
Borrowings	35	**112,145**	104,257
Notes payable	36	**122,057**	83,327
Long-term payables	37	**9,910**	3,577
Other financial liabilities	38	**9,254**	5,242
Deferred income tax liabilities	28	**16,061**	12,841
Lease liabilities	18	**10,198**	8,428
Deferred revenue	5(c)(i)	**6,678**	7,334
		286,303	225,006

Consolidated Statement of Financial Position

As at 31 December 2020

		As at 31 December	
		2020	2019
	Note	**RMB'Million**	RMB'Million
Current liabilities			
Accounts payable	39	**94,030**	80,690
Other payables and accruals	40	**54,308**	45,174
Borrowings	35	**14,242**	22,695
Notes payable	36	**–**	10,534
Current income tax liabilities		**12,134**	9,733
Other tax liabilities		**2,149**	1,245
Other financial liabilities	38	**5,567**	5,857
Lease liabilities	18	**3,822**	3,279
Deferred revenue	5(c)(i)	**82,827**	60,949
		269,079	240,156
Total liabilities		**555,382**	465,162
Total equity and liabilities		**1,333,425**	953,986

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 164 to 304 were approved by the Board of Directors on 24 March 2021 and were signed on its behalf:

Ma Huateng
Director

Lau Chi Ping Martin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2020	–	35,271	(4,002)	16,786	384,651	432,706	56,118	488,824
Comprehensive income								
Profit for the year	–	–	–	–	159,847	159,847	278	160,125
Other comprehensive income, net of tax:								
– share of other comprehensive income/(loss) of associates and joint ventures	–	–	–	347	–	347	(13)	334
– transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates	–	–	–	(3)	–	(3)	–	(3)
– net gains from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	127,873	–	127,873	2,652	130,525
– currency translation differences	–	–	–	(9,016)	–	(9,016)	469	(8,547)
– other fair value losses, net	–	–	–	(1,214)	–	(1,214)	(47)	(1,261)
Total comprehensive income for the year	–	–	–	117,987	159,847	277,834	3,339	281,173
Transfer of gains on disposal and deemed disposal of financial instruments to retained earnings	–	–	–	(5,151)	5,151	–	–	–
Share of other changes in net assets of associates and joint ventures	–	–	–	3,320	–	3,320	(2)	3,318
Transfer of share of other changes in net assets of associates to profit or loss upon disposal and deemed disposal of associates	–	–	–	(154)	–	(154)	–	(154)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	314	314
Employee share option schemes:								
– value of employee services	–	1,768	–	60	–	1,828	62	1,890
– proceeds from shares issued	–	1,716	–	–	–	1,716	–	1,716
Employee share award schemes:								
– value of employee services	–	9,720	–	413	–	10,133	433	10,566
– shares withheld for share award schemes	–	–	(1,865)	–	–	(1,865)	–	(1,865)
– vesting of awarded shares	–	(1,209)	1,209	–	–	–	–	–
Tax benefit from share-based payments	–	–	–	588	–	588	–	588
Profit appropriations to statutory reserves	–	–	–	736	(736)	–	–	–
Dividends	–	–	–	–	(10,449)	(10,449)	(1,176)	(11,625)
Non-controlling interests arising from business combinations (Note 41)	–	–	–	–	–	–	12,459	12,459
Disposal and deemed disposal of subsidiaries	–	–	–	–	–	–	15	15
Acquisition of additional equity interests in non wholly-owned subsidiaries	–	–	–	(2,795)	–	(2,795)	(3,180)	(5,975)
Dilution of interests in subsidiaries	–	–	–	(684)	–	(684)	1,407	723
Changes in put option liability in respect of non-controlling interests	–	–	–	(765)	–	(765)	(293)	(1,058)
Recognition of financial liabilities in respect of the put option from business combination	–	–	–	(2,730)	–	(2,730)	–	(2,730)
Transfer of equity interests of subsidiaries to non-controlling interests	–	1,527	246	(6,472)	–	(4,699)	4,563	(136)
Total transactions with equity holders at their capacity as equity holders for the year	–	13,522	(410)	(11,649)	(11,185)	(9,722)	14,604	4,882
Balance at 31 December 2020	–	48,793	(4,412)	121,139	538,464	703,984	74,059	778,043

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2019	–	27,294	(4,173)	729	299,660	323,510	32,697	356,207
Comprehensive income								
Profit for the year	–	–	–	–	93,310	93,310	2,578	95,888
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	126	–	126	(1)	125
– transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	–	–	–	(3)	–	(3)	–	(3)
– net gains from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	22,601	–	22,601	518	23,119
– currency translation differences	–	–	–	2,928	–	2,928	161	3,089
– other fair value losses, net	–	–	–	(2,292)	–	(2,292)	(25)	(2,317)
Total comprehensive income for the year	–	–	–	23,360	93,310	116,670	3,231	119,901
Transfer of gains on disposal and deemed disposal of financial assets at fair value through other comprehensive income to retained earnings	–	–	–	(720)	720	–	–	–
Share of other changes in net assets of associates	–	–	–	2,322	–	2,322	–	2,322
Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates	–	–	–	(149)	–	(149)	–	(149)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	273	273
Employee share option schemes:								
– value of employee services	–	2,041	–	62	–	2,103	63	2,166
– proceeds from shares issued	–	272	–	–	–	272	–	272
Employee share award schemes:								
– value of employee services	–	7,303	–	379	–	7,682	279	7,961
– shares withheld for share award schemes	–	–	(1,186)	–	–	(1,186)	–	(1,186)
– vesting of awarded shares	–	(1,357)	1,357	–	–	–	–	–
Repurchase and cancellation of shares	–	(1,046)	–	–	–	(1,046)	–	(1,046)
Tax benefit from share-based payments	–	–	–	529	–	529	–	529
Profit appropriations to statutory reserves	–	–	–	734	(734)	–	–	–
Dividends	–	–	–	–	(8,305)	(8,305)	(365)	(8,670)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	18,386	18,386
Disposal of a subsidiary	–	–	–	–	–	–	(1)	(1)
Acquisition of additional equity interests in non wholly-owned subsidiaries	–	276	–	(534)	–	(258)	(844)	(1,102)
Dilution of interests in subsidiaries	–	–	–	(355)	–	(355)	394	39
Transfer of equity interests of subsidiaries to non-controlling interests	–	488	–	(4,849)	–	(4,361)	3,631	(730)
Recognition of financial liabilities in respect of the put option from business combination	–	–	–	(4,722)	–	(4,722)	(1,626)	(6,348)
Total transactions with equity holders at their capacity as equity holders for the year	–	7,977	171	(8,756)	(9,039)	(9,647)	20,190	10,543
Balance at 31 December 2019	–	35,271	(4,002)	16,786	384,651	432,706	56,118	488,824

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'Million	2019 RMB'Million
Cash flows from operating activities			
Cash generated from operations	42(a)	**214,441**	165,818
Income tax paid		**(20,322)**	(17,228)
Net cash flows generated from operating activities		**194,119**	148,590
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		**(15,097)**	(428)
Net inflow of cash in respect of disposal of a subsidiary		**15**	–
Purchase of property, plant and equipment, construction in progress and investment properties		**(34,070)**	(22,766)
Proceeds from disposals of property, plant and equipment		**–**	4
Purchase of/prepayment for intangible assets		**(27,182)**	(29,866)
Purchase of/prepayment for land use rights		**(5,347)**	(4,356)
Payments for acquisition of investments in associates		**(30,533)**	(14,904)
Proceeds from disposals of investments in associates		**2,208**	667
Payments for acquisition of investments in joint ventures		**(247)**	(720)
Payments for acquisition of financial assets at fair value through other comprehensive income		**(12,719)**	(9,425)
Proceeds from disposals of financial assets at fair value through other comprehensive income		**7,648**	–
Payments for acquisition of financial assets at fair value through profit or loss		**(60,066)**	(39,827)
Proceeds from disposals of financial assets at fair value through profit or loss		**13,168**	15,744
Payments for acquisition/settlements of other financial instruments		**(859)**	(11,391)
Proceeds from disposals of other financial assets		**1,626**	1,222
Payments for loans to investees and others		**(1,755)**	(5,648)
Loans repayments from investees and others		**484**	618
Receipt from maturity of term deposits with initial terms of over three months		**32,177**	82,607
Placement of term deposits with initial terms of over three months		**(59,169)**	(85,601)
Interest received		**5,610**	6,230
Dividends received		**2,153**	1,670
Net cash flows used in investing activities		**(181,955)**	(116,170)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	**5,090**	18,375
Repayments of short-term borrowings	**(8,512)**	(22,058)
Proceeds from long-term borrowings	**26,323**	55,075
Repayments of long-term borrowings	**(15,899)**	(55,168)
Net proceeds from issuance of notes payable	**47,948**	40,202
Repayments of notes payable	**(10,460)**	(13,465)
Principal elements of lease payments	**(3,537)**	(2,400)
Interest paid	**(7,076)**	(7,047)
Payments for repurchase of shares	**–**	(1,046)
Proceeds from issuance of ordinary shares as a result of exercise of share options	**1,716**	272
Shares withheld for share award schemes	**(1,865)**	(1,406)
Proceeds from issuance of additional equity of non wholly-owned subsidiaries	**600**	440
Payments for acquisition of non-controlling interests in non wholly-owned subsidiaries	**(9,263)**	(649)
Dividends paid to the Company's shareholders	**(10,339)**	(8,315)
Dividends paid to non-controlling interests	**(1,079)**	(1,138)
Net cash flows generated from financing activities	**13,647**	1,672
Net increase in cash and cash equivalents	**25,811**	34,092
Cash and cash equivalents at beginning of the year	**132,991**	97,814
Exchange (losses)/gains on cash and cash equivalents	**(6,004)**	1,085
Cash and cash equivalents at end of the year	**152,798**	132,991

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of Value-added Services ("VAS"), Online Advertising services and FinTech and Business Services.

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

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

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

- the right to receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;

- the right to ensure that Tencent Technology owns the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer; and

- the right to control the management, financial and operating policies of Tencent Computer.

1 GENERAL INFORMATION (continued)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.3(a) and Note 47) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 47.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("FVPL"), financial assets at fair value through other comprehensive income ("FVOCI"), certain other financial assets and liabilities, which are carried at fair value.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments to standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Conceptual Framework	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 16	COVID-19-related Rent Concessions

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

(b) New standards and amendments to standards issued but not yet effective

The following new standards and amendments to standards have not come into effect for the financial year beginning 1 January 2020 and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 28 and IFRS 10	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020 Cycle	1 January 2022
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies

Change in the subsequent measurement of put option arrangements with non-controlling shareholders

From 1 January 2020, the Group made voluntary change in accounting policy on the subsequent measurement of put option arrangements with non-controlling shareholders from the change in carrying value "through profit or loss" to "through equity". The Group considers the change in the accounting policy will provide more relevant information about the effects of underlying transactions which is related to transaction with non-controlling shareholders that do not result in any change in the status of an existing subsidiary. The Group has adopted this new policy retrospectively, however as the impact is insignificant to the consolidated financial statements of the Group, comparative figures have not been restated. The adoption of this new policy also does not result in any significant financial impact for the year ended 31 December 2020.

2.3 Subsidiaries

(a) Consolidation

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

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

(i) Business combinations

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Business combinations (continued)

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

(a) Consolidation (continued)

(iii) Disposal of subsidiaries

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

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 47(e)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust", and will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition of the Company's shares.

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

2.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include underlying goodwill identified on acquisition, net of any accumulated impairment loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.4 Associates (continued)

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

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method, including investments in associates and joint arrangements (Note 2.5), are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other gains/(losses), net" in the consolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.5 Joint arrangements

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.5 Joint arrangements (continued)

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.6 Investments in associates/joint ventures achieved in stages

The cost of associates/joint ventures acquired in stages, except for the change from an associate to a joint venture, is measured as the sum of the fair value of the interests previously held plus the fair value of any additional consideration transferred as of the date when it becomes associate/joint venture. A gain or loss on re-measurement of the previously held interests is taken to the consolidated income statement.

2.7 Disposal of associates

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

2.8 Segment reporting

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified as FVOCI, are included in other comprehensive income.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Property, plant and equipment

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

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

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

Buildings	20 ~ 50 years
Computer and other operating equipment	2 ~ 10 years
Furniture and office equipment	2 ~ 5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of their useful lives and the lease term

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15).

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.11 Investment properties

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

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

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

2.12 Land use rights

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

2.13 Intangible assets

(a) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred plus acquisition-date fair value of the equity interests previously held by the Group and the non-controlling interests in the acquired entity over the fair value of the net identifiable assets of the acquiree.

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately under "Other gains/(losses), net" and is not subsequently reversed.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Intangible assets (continued)

(b) Media contents

Media contents mainly include game licenses, video and music contents, and literature copyrights. They are initially recognised and measured at cost or estimated fair value as acquired through business combinations. Media contents are amortised using a straight-line method or an accelerated method which reflects the estimated consumption patterns.

(c) Other intangible assets

Other intangible assets mainly include trademarks, other copyrights, computer software and technology, non-compete agreements and land with indefinite useful life. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Land with indefinite useful life is not subject to amortisation and impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Other intangible assets are amortised over their estimated useful lives (generally one to ten years) using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

2.14 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 47(e)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and the amount is deducted from total equity.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.15 Impairment of non-financial assets

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

2.16 Investments and other financial assets

(a) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Debt instruments

Initial recognition and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt investment measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest rate method.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net" in the consolidated income statement. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in "finance costs, net" and impairment losses or reversals are presented in "Other gains/(losses), net".

- FVPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "Other gains/(losses), net" for the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Equity instruments

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group's management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they meet the definition of equity instrument under IAS 32 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made an irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as "Other gains/(losses), net" when the Group's right to receive payments is established. Equity instruments designated as FVOCI are not subject to impairment assessment.

FVPL include financial assets designated upon initial recognition at fair value through profit or loss and financial assets that do not meet the criteria for amortised cost or FVOCI. Changes in the fair value of FVPL are recognised in "Other gains/(losses), net" in the consolidated income statement.

(b) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, which are recognised under "other financial assets" and "other financial liabilities" in the consolidated financial statements, respectively. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). The Group documents at the inception of the hedging relationship the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the hedge effectiveness requirements under IFRS 9. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through other comprehensive income within equity, while any ineffective portion is recognised immediately in profit or loss, within "Other gains/(losses), net".

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item are recognised within other comprehensive income in the costs of hedging reserve within equity.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 Derivative and hedging activities (continued)

Amounts accumulated in equity are accounted for, depending on the nature of the underlying hedged transaction, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, the amounts accumulated in equity are removed from other reserves and included within the initial cost of the asset. These deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.

- For any other cash flow hedges, the gain or loss relating to the effective portion of the derivatives is reclassified to profit or loss at the same time when the hedged cash flows affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging included in equity are immediately reclassified to profit or loss.

2.18 Offsetting financial instruments

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

2.19 Inventories

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.20 Accounts receivable

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

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

2.21 Cash and cash equivalents and restricted cash

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

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

2.22 Share capital

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.23 Accounts payable

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

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

2.24 Put option arrangements on non-controlling interest

Put options on non-controlling interest of the Group are financial instruments granted by the Group which permit the holders to put back to the Group their shares in certain non wholly-owned subsidiaries of the Group for cash or other financial instruments when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial instruments under the put option, a financial liability is initially recognised under "other financial liabilities" in the consolidated financial statements at the present value of the estimated future cash outflows on exercise under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount based on the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustment will be recognised in the consolidated statement of changes in equity. In the event that the put option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The put option liabilities are current liabilities unless the put option first becomes exercisable 12 months after the end of the reporting period.

2.25 Borrowings, notes payable and borrowing costs

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.25 Borrowings, notes payable and borrowing costs (continued)

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

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

General and specific finance costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year ended 31 December 2020, finance cost capitalised was insignificant to the Group.

2.26 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and tax losses.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Current and deferred income tax (continued)

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

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

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

2.27 Employee benefits

(a) Employee leave entitlements

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Employee benefits (continued)

(b) Pension obligations

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

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services and other qualifying participants' services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, 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 the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation techniques to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Employee benefits (continued)

(c) Share-based compensation benefits (continued)

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

At each reporting period end, the Group revises the estimates of the number of options and awarded shares that are expected to ultimately vest. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement of the Group, with a corresponding adjustment 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 the Group repurchases vested equity instruments, the payments 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 the Group to settle the transaction in cash. Upon the satisfaction of the vesting conditions, the Group shall account for that transaction as a cash-settled share-based payment transaction if, and to the extent that, the Group has 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. The Group adopts valuation technique to assess the fair value of such equity instruments granted under the share-based compensation plans as appropriate.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Provisions

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

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

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

2.29 Revenue recognition

The Group generates revenues primarily from provision of VAS, Online Advertising services, FinTech and Business 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.

(a) 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 items such as VAS subscriptions across various online platforms, and games revenues attributable to social networks business. The Group offers virtual items to users on the Group's online platforms. The VAS fees are paid directly by end users mainly via online payment channels.

Revenue from VAS is recognised when the Group satisfies its performance obligations by rendering services. Giving there is an explicit or implicit obligation of the Group to maintain the virtual items operated on the Group's platforms and allow users to gain access to them, revenue is recognised over the estimated lifespans of the respective virtual items. The estimated lifespans of different virtual items are determined by the management based on either the expected user relationship periods or the stipulated period of validity of the relevant virtual items depending on the respective term of virtual items.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 Revenue recognition (continued)

(a) VAS (continued)

Where the contracts include multiple performance obligations, the Group allocates 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 the Group's VAS services directly delivered to the Group's customers and paid through various third-party platforms, these third-party platforms collect the relevant service fees (the "Online Service Fees") on behalf of the Group and they are entitled to a pre-determined percentage of 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 the Group. The Group recognises 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 stated in (e) below, and recognises such Channel and distribution costs as cost of revenues.

The Group also opens its online platforms to third-party game/application developers under certain co-operation agreements, of which the Group pays to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of the Group's online platforms for the virtual items purchased. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

(b) Online Advertising

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

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 ads for an agreed period of time, and performance-based advertising that are based on actual performance measurement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 Revenue recognition (continued)

(b) Online Advertising (continued)

Revenue from display-based advertising is recognised on number of display/impression basis 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, the Group allocates 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.

(c) 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, wealth management 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 the Group satisfies its performance obligations 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, the Group allocates 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 Revenue recognition (continued)

(d) Other revenues

The Group's 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. The Group recognises other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

(e) Principal agent consideration

The Group reports the revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but are not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

(f) Contract liabilities and contract costs

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise virtual items, unamortised pre-paid tokens or cards, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the inception dates, and customer loyalty incentives offered to the customers (Note 5(c)).

Contract costs include incremental costs of obtaining a contract and costs to fulfil a contract with the customers. The contract costs are amortised using a method which is consistent with the pattern of recognition of the respective revenues.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.30 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "Interest income" where it is mainly earned from financial assets that are held for cash management purposes.

2.31 Dividend income

Dividends are received from FVPL and FVOCI. Dividends are recognised in "Other gains/(losses), net" in the consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2.32 Government grants/subsidies

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

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

2.33 Leases

The Group leases land (Note 2.12), various buildings, computer and other operating equipment and others. Rental contracts other than land are typically made for fixed periods of no longer than 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. A right-of-use asset arising from land lease is presented as "land use rights".

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.33 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.33 Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

A right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

The Group considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, when differences on settlement of the liabilities and the amortisation of right-of-use assets arise, there will be a net temporary difference on which deferred tax is recognised.

2.34 Dividends distribution

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.35 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2020, the Group's major monetary assets and liabilities exposed to foreign exchange risk are listed below:

	USD denominated RMB'Million	Non-USD denominated RMB'Million
As at 31 December 2020		
Monetary assets, current	**10,238**	**3,902**
Monetary assets, non-current	**34**	**4**
Monetary liabilities, current	**(8,650)**	**(2,408)**
Monetary liabilities, non-current	**(6,663)**	**(1,021)**
	(5,041)	**477**
As at 31 December 2019		
Monetary assets, current	27,728	2,899
Monetary assets, non-current	373	–
Monetary liabilities, current	(4,273)	(14,732)
Monetary liabilities, non-current	(91)	(5,739)
	23,737	(17,572)

During the year ended 31 December 2020, the Group reported exchange losses of approximately RMB438 million (2019: exchange gains of approximately RMB77 million) within "Finance costs, net" in the consolidated income statement.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2020, management considers that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency are considered to be not significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

(ii) Price risk

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified either as FVPL (Note 24) or FVOCI (Note 25). To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group's liquidity level simultaneously. Each investment is managed by management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL and FVOCI at the end of each reporting period. If prices of the respective instruments held by the Group had been 5% (31 December 2019: 5%) higher/lower as at 31 December 2020, profit for the year would have been approximately RMB8,326 million (2019: RMB6,611 million) higher/lower as a result of gains/losses on financial instruments classified as at FVPL, other comprehensive income would have been approximately RMB10,529 million (2019: RMB4,018 million) higher/lower as a result of gains/losses on financial instruments classified as at FVOCI.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent from changes in market interest rates and the Group has no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents, details of which have been disclosed in Notes 26, 29 and 31.

If the interest rate of term deposits with initial terms of over three months had been 50 basis points higher/lower, the profit before income tax for the year ended 31 December 2020 would have been RMB501 million (2019: RMB330 million) higher/lower. If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended 31 December 2020 would have been RMB764 million (2019: RMB665 million) higher/lower.

The Group's exposure to changes in interest rates is also attributable to its borrowings and notes payable, details of which have been disclosed in Notes 35 and 36, representing a substantial portion of the Group's debts. Borrowings and notes payable carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

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

The Group entered into certain interest rate swap contracts to hedge its exposure arising from borrowings and senior notes carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings and senior notes from floating rates to fixed rates and were qualified for hedge accounting. Details of the Group's outstanding interest rate swap contracts as at 31 December 2020 have been mainly disclosed in Note 38.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

	2020	2019
	RMB'Million	RMB'Million
Interest rate swaps		
Carrying amount (current assets)	**1**	–
Carrying amount (non-current assets)	**4**	–
Carrying amount (non-current liabilities)	**(1,937)**	(494)
Notional amount	**100,889**	29,423
Maturity date	**2021/6/15~**	2021/7/30~
	2024/12/23	2024/4/11
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments since 1 January	**(1,552)**	(2,139)
Change in value of hedged item used to determine hedge effectiveness	**(1,552)**	(2,139)
Weighted average hedged rate for the year	**0.88%**	2.10%

Swaps currently in place cover majority of the floating-rate borrowing and notes payable principal outstanding.

As at 31 December 2020 and 2019, management considered that any reasonable changes in the interest rates would not result in a significant change in the Group's results as the Group's exposure to cash flow interest-rate risk arising from its borrowings and notes payable carried at floating rates after considering the effect of hedging is considered to be insignificant. Accordingly, no sensitivity analysis is presented for interest rate risk.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its 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 the Group's 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 online 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, the Group has 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 its counterparties. The credit periods granted to these customers are disclosed in Note 30 and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. The Group has a large number of customers and there is no significant concentration of credit risk.

Other receivables are mainly comprised of receivables related to financial services, interest receivables, loans to investees and investees' shareholders, lease deposits and other receivables. Management manages the loans by category, makes periodic assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

For financial assets whose impairment losses are measured using expected credit loss ("ECL") model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognise their ECL, as follows:

– Stage 1: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage 1.

– Stage 2: If the credit risk has increased significantly since its initial recognition but not yet deemed to be credit-impaired, the financial instrument is included in stage 2.

– Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in stage 3.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group considers the credit risk characteristics of different financial instruments when determining if there is significant increase in credit risk. For financial instruments with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively.

The Group considers 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, the Group compares 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

To manage this risk, the Group only makes 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Credit risk of accounts receivable

The Group applies 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 2020 and the corresponding historical credit losses experienced within this period, or probability of a receivable progressing through successive stages of delinquency to write-off. 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 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 the Group, 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

Management considers the credit risk of other receivables is insignificant when they have a low risk of default and the issuer 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and readily marketable securities, which are classified as financial assets at fair value through profit or loss. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate balances of such.

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date (or the earliest date a financial liability may become payable in the absence of a fixed maturity date). The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2020					
Non-derivatives:					
Notes payable	3,994	3,994	41,182	119,495	168,665
Long-term payables	–	3,486	6,551	120	10,157
Borrowings	15,609	5,529	110,160	2	131,300
Lease liabilities	3,986	3,294	5,492	2,465	15,237
Other financial liabilities	4,994	2,207	4,279	603	12,083
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	121,903	–	–	–	121,903
Derivatives:					
Other financial liabilities	31	309	1,617	–	1,957
	150,517	18,819	169,281	122,685	461,302

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2019					
Non-derivatives:					
Notes payable	13,727	3,047	32,866	73,466	123,106
Long-term payables	–	2,322	1,079	227	3,628
Borrowings	26,164	21,343	91,447	–	138,954
Lease liabilities	3,526	2,840	4,866	1,739	12,971
Other financial liabilities	5,745	1,680	2,363	–	9,788
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	104,218	–	–	–	104,218
Derivatives:					
Other financial liabilities	29	–	494	–	523
	153,409	31,232	133,115	75,432	393,188

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Borrowings (Note 35)	**126,387**	126,952
Notes payable (Note 36)	**122,057**	93,861
Total debts	**248,444**	220,813
Adjusted EBITDA (Note)	**183,314**	147,395
Total debts/Adjusted EBITDA ratio	**1.36**	1.50

Note:

Adjusted EBITDA represents operating profit less interest income and other gains/(losses), net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, amortisation of intangible assets and equity-settled share-based compensation expenses.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
As at 31 December 2020				
FVPL	**27,620**	**5,646**	**139,271**	**172,537**
FVOCI	**199,465**	**–**	**13,626**	**213,091**
Other financial assets	**–**	**1,120**	**9**	**1,129**
Other financial liabilities	**–**	**1,957**	**3,352**	**5,309**
As at 31 December 2019				
FVPL	14,766	5,091	116,079	135,936
FVOCI	74,707	–	7,014	81,721
Other financial assets	–	375	–	375
Other financial liabilities	–	523	1,873	2,396

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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

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

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

Specific valuation techniques used to value financial instruments mainly include:

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

During the year ended 31 December 2020, there was no transfer between level 1 and 2 for recurring fair value measurements. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 for the years ended 31 December 2020 and 2019:

	Financial assets		Financial liabilities	
	2020	2019	**2020**	2019
	RMB'Million	RMB'Million	**RMB'Million**	RMB'Million
Opening balance	**123,093**	83,934	**1,873**	4,466
Additions	**56,393**	39,116	**2,142**	75
Business combinations	**10**	–	**–**	(977)
Disposals/Settlements	**(4,902)**	(6,714)	**(1,246)**	(1,193)
Transfers	**(41,653)**	(4,552)	**–**	–
Changes in fair value recognised in other comprehensive income	**2,133**	328	**–**	–
Changes in fair value recognised in profit or loss*	**25,748**	9,241	**635**	(463)
Currency translation differences	**(7,916)**	1,740	**(52)**	(35)
Closing balance	**152,906**	123,093	**3,352**	1,873
* Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	**11,032**	3,265	**636**	(463)

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note:

During the years ended 31 December 2020 and 2019, the amount transferred from level 3 to level 1 or level 2 was immaterial.

Valuation processes inputs and relationships to fair value (Level 3)

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

The components of the level 3 instruments mainly include investments in unlisted companies classified as FVPL or FVOCI, other financial assets, and other financial liabilities. Other financial liabilities mainly include contingent consideration payable related to certain business combinations. As these investments and instruments are not traded in an active market, majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgments, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund-raising transactions undertaken by the investees) and other exposure, etc.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of investments in unlisted companies.

Description	**Fair value as at 31 December**		**Significant unobservable inputs**	**Range of inputs as at 31 December**		**Relationship of unobservable inputs to fair value**
	2020	2019		**2020**	2019	
	RMB'Million	RMB'Million				
Investments in unlisted companies in FVPL and FVOCI	**147,132**	118,775	Expected volatility	**27% ~ 63%**	36% ~ 83%	Depends on rights and restrictions of shares held by the Group
			Risk-free rate	**0.15%~5.35%**	1.36%~6.68%	

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note: (continued)

For contingent consideration related to a business combination of a company, which is principally engaged in the television series and film production business, the significant unobservable inputs are growth rate of net profit and expected volatility, which are 15% (31 December 2019: 35%) and 35% (31 December 2019: 25%), respectively. The higher the growth rate, the higher the fair value; and the higher the expected volatility, the lower the fair value.

For the fair value of the Group's investments in unlisted companies, the sensitivity analysis is performed by management, see Note 3.1(a)(ii) for details.

For the fair value of contingent consideration related to business combination, if growth rate of net profit had been 5% higher or lower as at 31 December 2020, the fair value would have increased approximately RMB73 million (2019: RMB65 million) or decreased approximately RMB97 million (2019: RMB66 million). If the expected volatility had been 5% higher or lower as at 31 December 2020, the fair value would have decreased approximately RMB66 million (2019: RMB34 million) or increased approximately RMB66 million (2019: RMB25 million).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

As mentioned in Note 2.29(a), the end users purchase certain virtual items provided on the Group's online platforms and the relevant revenue is recognised based on the estimated lifespans of the virtual items. The estimated lifespans of different virtual items are determined by the management based on either the expected users' relationship periods or the stipulated period of validity of the relevant virtual items depending on the respective terms of virtual items.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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

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

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

(b) Recoverability of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property, plant and equipment, construction in progress, other intangible assets, investment properties, land use rights, 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 the Group's 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 the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(c) 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.

(d) Share-based compensation arrangements

As mentioned in Note 2.27(c), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the Binomial Model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Binomial Model (Note 34).

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD1,073 million (equivalent to approximately RMB976 million) in 2020 (2019: HKD3,250 million (equivalent to approximately RMB2,785 million)).

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2020, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be not lower than 91% (31 December 2019: not lower than 95%).

(e) Income taxes

The Group is 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.

5 SEGMENT INFORMATION AND REVENUES

(a) Description of segments and principal activities

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

The Group has the following reportable segments for the years ended 31 December 2020 and 2019:

- 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.

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

There were no material inter-segment sales during the years ended 31 December 2020 and 2019. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

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

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2020 and 2019 is as follows:

	Year ended 31 December 2020				
	VAS RMB'Million	**Online Advertising RMB'Million**	**FinTech and Business Services RMB'Million**	**Others RMB'Million**	**Total RMB'Million**
Segment revenues	**264,212**	**82,271**	**128,086**	**7,495**	**482,064**
Gross profit	**142,925**	**42,260**	**36,251**	**96**	**221,532**
Depreciation	**5,006**	**3,331**	**9,170**	**87**	**17,594**
Amortisation	**17,771**	**6,628**	**30**	**2,329**	**26,758**

	Year ended 31 December 2019				
	VAS RMB'Million	Online Advertising RMB'Million	FinTech and Business Services RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	199,991	68,377	101,355	7,566	377,289
Gross profit	105,905	33,517	27,524	587	167,533
Depreciation	3,461	2,065	6,669	108	12,303
Amortisation	14,710	9,977	–	3,115	27,802

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

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the Mainland of China. During the years ended 31 December 2020 and 2019, breakdown of the total revenues by geographical location is as follows:

	2020	2019
	RMB'Million	RMB'Million
Revenues		
– The Mainland of China	**448,165**	360,562
– Others	**33,899**	16,727
	482,064	377,289

The Group also conducts operations in the North America, Europe and other regions, and holds investments (including investments in associates, investments in joint ventures, FVPL and FVOCI) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Operating assets		
– The Mainland of China	**400,062**	345,721
– Others	**242,477**	168,714
Investments		
– The Mainland of China and Hong Kong	**415,685**	289,491
– North America	**141,876**	76,488
– Asia excluding the Mainland of China and Hong Kong	**61,894**	40,139
– Europe	**57,750**	29,707
– Others	**13,681**	3,726
	1,333,425	953,986

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

As at 31 December 2020, the total non-current assets other than financial instruments and deferred tax assets located in the Mainland of China and other regions amounted to RMB400,877 million (31 December 2019: RMB311,386 million) and RMB177,427 million (31 December 2019: RMB136,338 million), respectively.

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the years ended 31 December 2020 and 2019.

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue of the Group from contracts with customers is disaggregated by revenue source. The table also includes a reconciliation to the segment information (Note 5(a)).

	2020	2019
	RMB'Million	RMB'Million
Revenue from contracts with customers		
– VAS	**264,212**	199,991
Online games	**156,101**	114,710
Social networks	**108,111**	85,281
– Online Advertising	**82,271**	68,377
Social and others advertising	**67,979**	52,897
Media advertising	**14,292**	15,480
– FinTech and Business Services	**128,086**	101,355
– Others	**7,495**	7,566
	482,064	377,289

5 SEGMENT INFORMATION AND REVENUES (continued)

(c) Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers under "Deferred revenue":

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Contract liabilities:		
VAS	**60,612**	46,438
Online Advertising	**4,797**	7,939
FinTech and Business Services	**6,952**	2,013
Others	**181**	137
	72,542	56,527

Note:

(i) Contract liabilities

Contract liabilities mainly comprised virtual items, unamortised pre-paid tokens or cards, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the relevant inception dates, and customer loyalty incentives offered to the customers.

5 SEGMENT INFORMATION AND REVENUES (continued)

(c) Assets and liabilities related to contracts with customers (continued)

Note: (continued)

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	2020	2019
	RMB'Million	RMB'Million
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
VAS	**43,030**	31,787
Online Advertising	**3,034**	3,045
FinTech and Business Services	**1,783**	923
Others	**137**	174
	47,984	35,929

As at 31 December 2020, total capitalised costs to obtain or fulfill a contract with customer were immaterial.

6 INTEREST INCOME

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

7 OTHER GAINS, NET

	2020 RMB'Million	2019 RMB'Million
Net gains on disposals and deemed disposals of investee companies (Note (a))	**24,390**	8,492
Net fair value gains on FVPL	**37,257**	9,511
Impairment provision for investee companies, goodwill and other intangible assets arising from acquisitions (Note (b))	**(11,422)**	(4,006)
Subsidies and tax rebates	**7,922**	4,263
Net fair value gains on other financial instruments (Note 27 and Note 38)	**1,652**	1,647
Donations (Note (c))	**(2,600)**	(850)
Dividend income	**1,765**	1,014
Others	**(1,833)**	(382)
	57,131	19,689

Note:

(a) The disposal and deemed disposal gains of approximately RMB24,390 million recognised during the year ended 31 December 2020 mainly comprised the following:

- net gains of approximately RMB15,492 million (2019: RMB4,859 million) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 21). These investee companies are mainly listed companies and principally engaged in Internet-related business; and

- aggregate net gains of approximately RMB8,898 million (2019: RMB3,633 million) on disposals, partial disposals or other deemed disposals of various investments of the Group, including step down gains of approximately RMB2,592 million arising from investment in an associate transferred to FVOCI (Note 25(a)) as a result of retirement of board representative, and step up gains of approximately RMB2,189 million arising from the acquisition of HUYA Inc. ("HUYA"), an investment transferred from investment in an associate to a subsidiary (Note 41(a)).

7 OTHER GAINS, NET (continued)

Note: (continued)

(b) The impairment provision/(reversal) for investee companies, goodwill and other intangible assets arising from acquisitions mainly comprised the following:

	2020	2019
	RMB'Million	RMB'Million
Investments in associates (Note 21)	**5,254**	3,877
Investments in joint ventures (Note 22)	**1,388**	(54)
Goodwill and other intangible assets arising from acquisitions	**4,780**	183
	11,422	4,006

(c) The donations mainly include emergency funds to offer support to pandemic-related programmes and medical research.

8 EXPENSES BY NATURE

	2020	2019
	RMB'Million	RMB'Million
Transaction costs (Note (a))	**107,628**	85,702
Employee benefits expenses (Note (b) and Note 13)	**69,638**	53,123
Content costs (excluding amortisation of intangible assets)	**58,285**	48,321
Amortisation of intangible assets (Note (c) and Note 20)	**29,073**	28,954
Bandwidth and server custody fees (excluding depreciation of right-of-use assets)	**21,876**	16,284
Depreciation of property, plant and equipment, investment properties and right-of-use assets (Note 16 and Note 18)	**21,458**	15,623
Promotion and advertising expenses	**26,596**	16,405
Auditor's remuneration		
– Audit and Audit-related services	**127**	105
– Non-audit services	**37**	43

8 EXPENSES BY NATURE (continued)

Note:

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

(b) During the year ended 31 December 2020, the Group incurred expenses for the purpose of research and development of approximately RMB38,972 million (2019: RMB30,387 million), which comprised employee benefits expenses of approximately RMB31,643 million (2019: RMB24,478 million).

During the year ended 31 December 2020, employee benefits expenses included the share-based compensation expenses of approximately RMB13,745 million (2019: RMB10,500 million). No significant development expenses had been capitalised for the years ended 31 December 2020 and 2019.

(c) Amortisation charges of intangible assets is mainly related to media content including video and music contents, game licenses and literature copyrights. During the year ended 31 December 2020, amortisation of media content was approximately RMB26,620 million (2019: RMB27,758 million).

During the year ended 31 December 2020, amortisation of intangible assets included the amortisation of intangible assets resulting from business combinations of approximately RMB3,299 million (2019: RMB1,051 million).

9 FINANCE COSTS, NET

	2020	2019
	RMB'Million	RMB'Million
Interest and related expenses	**7,449**	7,690
Exchange losses/(gains), net	**438**	(77)
	7,887	7,613

Interest and related expenses mainly arose from the borrowings, notes payable and lease liabilities disclosed in Notes 35, 36 and 18, respectively.

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

	2020	2019
	RMB'Million	RMB'Million
Share of profit/(loss) of associates (Note 21)	**3,748**	(1,371)
Share of loss of joint ventures (Note 22)	**(76)**	(310)
	3,672	(1,681)

11 TAXATION

(a) Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2020 and 2019.

(ii) 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 years ended 31 December 2020 and 2019.

(iii) 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 years ended 31 December 2020 and 2019. The general PRC CIT rate is 25% in 2020 and 2019.

11 TAXATION (continued)

(a) Income tax expense (continued)

(iii) PRC CIT (continued)

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 years ended 31 December 2020 and 2019. Moreover, according to the announcement and circular issued by relevant government authorities, certain subsidiaries which are 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.

(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, had been calculated on the estimated assessable profit for the year at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

(v) 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.

11 TAXATION (continued)

(a) Income tax expense (continued)

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

	2020	2019
	RMB'Million	RMB'Million
Current income tax	**19,499**	14,730
Deferred income tax (Note 28)	**398**	(1,218)
	19,897	13,512

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year (2019: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2020	2019
	RMB'Million	RMB'Million
Profit before income tax	**180,022**	109,400
Share of (profit)/loss of associates and joint ventures, net	**(3,672)**	1,681
	176,350	111,081
Tax calculated at a tax rate of 25%	**44,087**	27,770
Effects of different tax rates applicable to different subsidiaries of the Group	**(29,779)**	(17,236)
Effects of tax holiday and preferential tax benefits on assessable profits of subsidiaries incorporated in the Mainland of China	**(3,466)**	(3,584)
Income not subject to tax	**(65)**	(71)
Expenses not deductible for tax purposes	**1,555**	1,177
Withholding tax on earnings expected to be remitted by subsidiaries (Note 28)	**3,900**	2,650
Unrecognised deferred income tax assets	**3,658**	3,027
Others	**7**	(221)
Income tax expense	**19,897**	13,512

11 TAXATION (continued)

(b) Value-added tax and other taxes

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

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	6~16% (Note i)	Sales value of goods sold and services fee income, offsetting by VAT on purchases
Cultural construction fee	3% (Note ii)	Taxable advertising income
City construction tax	7%	Net VAT payable amount
Educational surcharge	5%	Net VAT payable amount

Note:

(i) Effective from 1 April 2019, the 16% and 10% VAT rates applicable to certain goods and services have been reduced to 13% and 9%, respectively.

(ii) Effective from 1 July 2019 and until 31 December 2024, cultural construction fee has been reduced by 50% in certain jurisdictions, while during the period from 1 January 2020 to 31 December 2020, this fee is exempted.

12 EARNINGS PER SHARE

(a) Basic

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

	2020	2019
Profit attributable to equity holders of the Company (RMB'Million)	**159,847**	93,310
Weighted average number of ordinary shares in issue (million shares)	**9,490**	9,468
Basic EPS (RMB per share)	**16.844**	9.856

12 EARNINGS PER SHARE (continued)

(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.

	2020	2019
Profit attributable to equity holders of the Company (RMB'Million)	**159,847**	93,310
Dilution effect arising from share-based awards issued by non wholly-owned subsidiaries and associates (RMB'Million)	**(403)**	(708)
Profit attributable to equity holders of the Company for the calculation of diluted EPS (RMB'Million)	**159,444**	92,602
Weighted average number of ordinary shares in issue (million shares)	**9,490**	9,468
Adjustments for share options and awarded shares (million shares)	**160**	135
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	**9,650**	9,603
Diluted EPS (RMB per share)	**16.523**	9.643

13 EMPLOYEE BENEFITS EXPENSES

	2020	2019
	RMB'Million	RMB'Million
Wages, salaries and bonuses	**48,192**	35,782
Contributions to pension plans (Note)	**2,911**	3,001
Share-based compensation expenses	**13,745**	10,500
Welfare, medical and other expenses (Note)	**4,679**	3,725
Training expenses	**111**	115
	69,638	53,123

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended 31 December 2020 and 2019 are listed below:

	Percentage
Pension insurance	12.0 ~ 20.0%
Medical insurance	5.2 ~ 10.5%
Unemployment insurance	0.32 ~ 1.5%
Housing fund	10.0 ~ 12.0%

13 EMPLOYEE BENEFITS EXPENSES (continued)

(a) Senior management's emoluments

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

	2020	2019
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**466,665**	379,536
Contributions to pension plans	**713**	759
Share-based compensation expenses	**2,696,137**	2,219,669
	3,163,515	2,599,964

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

	Number of individuals	
	2020	2019
Emolument bands		
HKD8,000,000 ~ HKD50,000,000	**2**	1
HKD50,000,001 ~ HKD200,000,000	**6**	9
HKD200,000,001 ~ HKD400,000,000	**3**	–
HKD400,000,001 ~ HKD800,000,000	**–**	–
HKD800,000,001 ~ HKD1,200,000,000	**2**	2

13 EMPLOYEE BENEFITS EXPENSES (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2020 (2019: one). All of these individuals including that one director (Note 14(a)) have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2020 and 2019. The emoluments paid/payable to the remaining four (2019: four) individuals during the year were as follows:

	2020	2019
	RMB'000	RMB'000
Salaries and bonuses	**553,590**	514,296
Contributions to pension plans	**3,846**	4,565
Share-based compensation expenses	**1,957,518**	1,512,706
Allowances and benefits in kind	**156**	90
	2,515,110	2,031,657

The emoluments of the above four individuals (2019: four) fell within the following bands:

	Number of individuals	
	2020	2019
Emolument bands		
HKD221,000,001 ~ HKD221,500,000	**–**	2
HKD352,500,001 ~ HKD353,000,000	**1**	–
HKD357,500,001 ~ HKD358,000,000	**1**	–
HKD860,500,001 ~ HKD861,000,000	**–**	1
HKD964,500,001 ~ HKD965,000,000	**–**	1
HKD1,121,500,001 ~ HKD1,122,000,000	**1**	–
HKD1,155,500,001 ~ HKD1,156,000,000	**1**	–

14 BENEFITS AND INTERESTS OF DIRECTORS

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

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

During the year ended 31 December 2020:

Name of director	Fees RMB'000	Salaries and bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	**1,174**	**57,452**	**88**	**–**	**24**	**58,738**
Lau Chi Ping Martin	**1,174**	**40,115**	**–**	**386,340**	**85**	**427,714**
Iain Ferguson Bruce	**1,010**	**–**	**–**	**3,630**	**–**	**4,640**
Ian Charles Stone	**1,010**	**–**	**–**	**4,636**	**–**	**5,646**
Li Dong Sheng	**758**	**–**	**–**	**2,318**	**–**	**3,076**
Jacobus Petrus (Koos) Bekker	**–**	**–**	**–**	**–**	**–**	**–**
Charles St Leger Searle	**–**	**–**	**–**	**–**	**–**	**–**
Yang Siu Shun	**926**	**–**	**–**	**3,919**	**–**	**4,845**
Ke Yang	**757**	**–**	**–**	**1,444**	**–**	**2,201**
	6,809	**97,567**	**88**	**402,287**	**109**	**506,860**

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

During the year ended 31 December 2019:

Name of director	Fees RMB'000	Salaries and bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	1,256	45,256	91	–	22	46,625
Lau Chi Ping Martin	1,256	34,204	–	319,216	85	354,761
Iain Ferguson Bruce	985	–	–	3,761	–	4,746
Ian Charles Stone	985	–	–	4,572	–	5,557
Li Dong Sheng	717	–	–	2,285	–	3,002
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	896	–	–	3,447	–	4,343
Ke Yang	716	–	–	306	–	1,022
	6,811	79,460	91	333,587	107	420,056

Note:

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

(ii) During the year ended 31 December 2020, 4,399,815 options (2019: 3,506,580 options) were granted to one executive director of the Company, and 59,500 awarded shares were granted to five independent non-executive directors of the Company (2019: 59,484 awarded shares were granted to five independent non-executive directors of the Company).

(iii) No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2020 and 2019.

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) Directors' termination benefits

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

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

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

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

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

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

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

15 DIVIDENDS

The final dividends amounting to HKD11,378 million (2019: HKD9,463 million) were paid during the year ended 31 December 2020.

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 annual general meeting of the Company to be held on 20 May 2021 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'Million	Computer and other operating equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2020						
Cost	12,805	62,094	1,788	56	2,930	79,673
Accumulated depreciation and impairment	(2,566)	(27,988)	(973)	(32)	(1,508)	(33,067)
Currency translation differences	(1)	108	14	–	97	218
Net book amount	10,238	34,214	829	24	1,519	46,824
Year ended 31 December 2020						
Opening net book amount	10,238	34,214	829	24	1,519	46,824
Business combinations	9	133	18	31	59	250
Additions	1,952	28,186	421	28	221	30,808
Disposals	(1)	(109)	(6)	(1)	(7)	(124)
Depreciation	(970)	(16,023)	(270)	(11)	(384)	(17,658)
Currency translation differences	–	(199)	(4)	(1)	(53)	(257)
Closing net book amount	11,228	46,202	988	70	1,355	59,843
At 31 December 2020						
Cost	14,740	86,946	2,196	113	3,165	107,160
Accumulated depreciation and impairment	(3,511)	(40,653)	(1,218)	(42)	(1,854)	(47,278)
Currency translation differences	(1)	(91)	10	(1)	44	(39)
Net book amount	11,228	46,202	988	70	1,355	59,843

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'Million	Computer and other operating equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2019						
Cost	9,313	44,835	1,370	44	2,443	58,005
Accumulated depreciation and impairment	(1,677)	(19,297)	(808)	(26)	(1,241)	(23,049)
Currency translation differences	(1)	43	13	–	80	135
Net book amount	7,635	25,581	575	18	1,282	35,091
Year ended 31 December 2019						
Opening net book amount	7,635	25,581	575	18	1,282	35,091
Business combinations	–	74	2	–	38	114
Additions	3,509	19,623	463	13	509	24,117
Disposals	(9)	(16)	(7)	–	(5)	(37)
Depreciation	(897)	(11,113)	(205)	(7)	(322)	(12,544)
Currency translation differences	–	65	1	–	17	83
Closing net book amount	10,238	34,214	829	24	1,519	46,824
At 31 December 2019						
Cost	12,805	62,094	1,788	56	2,930	79,673
Accumulated depreciation and impairment	(2,566)	(27,988)	(973)	(32)	(1,508)	(33,067)
Currency translation differences	(1)	108	14	–	97	218
Net book amount	10,238	34,214	829	24	1,519	46,824

During the year ended 31 December 2020, depreciation of RMB15,654 million (2019: RMB10,828 million), RMB256 million (2019: RMB203 million) and RMB1,748 million (2019: RMB1,513 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

17 LAND USE RIGHTS

	2020 RMB'Million	2019 RMB'Million
Opening net book amount	**15,609**	7,106
Business combinations	**155**	–
Additions	**793**	8,714
Amortisation	**(465)**	(211)
Currency translation differences	**(1)**	–
Closing net book amount	**16,091**	15,609

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 29 to 54 years.

18 LEASES (EXCLUDING LAND USE RIGHTS)

(a) Amounts recognised in the consolidated statement of financial position

Except recognition of lease liabilities, the carrying amounts of right-of-use assets (excluding land use rights, disclosed in Note 17), are as below:

	Buildings RMB'Million	Computer and other operating equipment RMB'Million	Others RMB'Million	Total RMB'Million
Net book amount as at 1 January 2020	**5,574**	**5,253**	**20**	**10,847**
Net book amount as at 31 December 2020	**6,112**	**6,775**	**42**	**12,929**

Additions to the right-of-use assets (excluding land use rights, disclosed in Note 17) during the year ended 31 December 2020 were RMB6,311 million (2019: RMB4,241 million), including acquired assets arising from business combinations.

18 LEASES (EXCLUDING LAND USE RIGHTS) (continued)

(b) Amounts recognised in consolidated income statement

The consolidated income statement shows the following amounts relating to leases (excluding the amortisation of land use rights, disclosed in Note 17):

	2020	2019
	RMB'Million	RMB'Million
Depreciation charge of right-of-use assets		
Buildings	**1,782**	1,543
Computer and other operating equipment	**1,972**	1,501
Others	**19**	5
	3,773	3,049
Interest expense (included in finance costs, net)	**559**	541
Expense relating to short-term leases not included in lease liabilities (included in cost of revenues and expenses)	**1,475**	1,344
Expense relating to variable lease payments not included in lease liabilities (included in cost of revenues and expenses)	**3,983**	2,783

Some computer equipments contain variable lease payments. Variable payments are used for a variety of reasons, including managing cash outflows and minimising the fixed costs. Variable lease payments that depend on usage of bandwidth are recognised in profit or loss in the period in which the condition that triggers those payments occur. Variable lease payments relating to computer equipment leases during the year ended 31 December 2020 were considered to be insignificant.

The total cash outflow in financing activities for leases during the year ended 31 December 2020 was approximately RMB4,068 million (2019: RMB2,882 million), including principal elements of lease payments of approximately RMB3,537 million (2019: RMB2,400 million) and related interest paid of approximately RMB531 million (2019: RMB482 million), respectively.

19 CONSTRUCTION IN PROGRESS

	2020 RMB'Million	2019 RMB'Million
Opening net book amount	**3,935**	4,879
Additions	**3,408**	3,168
Transfer to property, plant and equipment	**(2,415)**	(4,111)
Currency translation differences	**11**	(1)
Closing net book amount	**4,939**	3,935

As at 31 December 2020, construction in progress mainly comprised office buildings and data centres under construction located in the PRC.

20 INTANGIBLE ASSETS

	Goodwill RMB'Million	Computer software and technology RMB'Million	Media contents RMB'Million	Trademarks RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2020						
Cost	94,056	4,553	78,911	8,535	4,049	190,104
Accumulated amortisation and impairment	(1,368)	(2,615)	(55,504)	(785)	(1,906)	(62,178)
Currency translation differences	768	18	133	9	6	934
Net book amount	93,456	1,956	23,540	7,759	2,149	128,860
Year ended 31 December 2020						
Opening net book amount	93,456	1,956	23,540	7,759	2,149	128,860
Business combinations (Note 41)	18,034	1,634	4,563	3,430	821	28,482
Additions	–	815	34,314	1	1,079	36,209
Disposals	–	(36)	(1,667)	–	(13)	(1,716)
Amortisation	–	(631)	(26,620)	(866)	(956)	(29,073)
Impairment provision	(4,205)	(92)	(92)	(483)	–	(4,872)
Currency translation differences	1,338	(19)	124	159	(55)	1,547
Closing net book amount	108,623	3,627	34,162	10,000	3,025	159,437
At 31 December 2020						
Cost	112,090	6,879	107,271	12,015	5,965	244,220
Accumulated amortisation and impairment	(5,573)	(3,251)	(73,366)	(2,183)	(2,891)	(87,264)
Currency translation differences	2,106	(1)	257	168	(49)	2,481
Net book amount	108,623	3,627	34,162	10,000	3,025	159,437

20 INTANGIBLE ASSETS (continued)

	Goodwill RMB'Million	Computer software and technology RMB'Million	Media contents RMB'Million	Trademarks RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2019						
Cost	33,730	3,902	54,292	1,710	3,089	96,723
Accumulated amortisation and impairment	(1,348)	(2,060)	(35,040)	(482)	(1,445)	(40,375)
Currency translation differences	223	8	78	(1)	(6)	302
Net book amount	32,605	1,850	19,330	1,227	1,638	56,650
Year ended 31 December 2019						
Opening net book amount	32,605	1,850	19,330	1,227	1,638	56,650
Business combinations	60,326	145	7,143	6,793	845	75,252
Additions	–	502	25,870	33	169	26,574
Disposals	–	–	(1,049)	–	(11)	(1,060)
Amortisation	–	(470)	(27,758)	(223)	(503)	(28,954)
Impairment provision	(20)	(81)	(51)	(81)	(1)	(234)
Currency translation differences	545	10	55	10	12	632
Closing net book amount	93,456	1,956	23,540	7,759	2,149	128,860
At 31 December 2019						
Cost	94,056	4,553	78,911	8,535	4,049	190,104
Accumulated amortisation and impairment	(1,368)	(2,615)	(55,504)	(785)	(1,906)	(62,178)
Currency translation differences	768	18	133	9	6	934
Net book amount	93,456	1,956	23,540	7,759	2,149	128,860

During the year ended 31 December 2020, amortisation of RMB26,758 million (2019: RMB27,802 million) and RMB2,315 million (2019: RMB1,152 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2020, impairment losses of RMB4,780 million (2019: RMB183 million) on goodwill and other intangible assets were charged to the consolidated income statement under "Other gains/(losses), net", and RMB92 million (2019: RMB51 million) were charged to "cost of revenues".

20 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB104,688 million (31 December 2019: RMB86,489 million), FinTech and Business Services segment with RMB1,018 million (31 December 2019: RMB34 million) and Others segment with RMB2,917 million (31 December 2019: RMB6,933 million).

The Group carries out its impairment testing on goodwill by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts. For the purpose of goodwill impairment review, the recoverable amount of a CGU (or groups of CGUs) is the higher of its fair value less costs of disposal and its value in use.

The key assumptions used for the calculation of the recoverable amounts of the CGUs (or groups of CGUs) under impairment testing were as follows:

For goodwill attributable to the Group's businesses in online music, online literature, television series and film production and Business Services, value in use using discounted cash flows was calculated, in most cases, based on five-year period to ten-year period financial projections plus a terminal value related to cash flows beyond the projection period extrapolated at an estimated terminal growth rate of generally not more than 5% (2019: not more than 5%). Pre-tax discount rates ranging from 13% to 23% (2019: 13% to 25%) were adopted, which reflected assessment of time value and specific risks relating to the industries that the Group operates in. Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. Key parameters applied in the financial projections for impairment review purpose also included revenue growth rates, on a compound annual basis, of not more than 22% (2019: not more than 18%).

20 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

During the six months ended 30 June 2020, the goodwill impairment was mainly related to an acquired business engaged in television series and film production business within Others segment. Management has considered that the film and television industry in the Mainland of China is undergoing profound adjustment, as it responds to the fluid and changing macro-environment which has been affected by the novel coronavirus pandemic, and accordingly the Group's acquired TV and film production business has been suffering substantially due to production delays and uncertain release dates. For the purpose of impairment testing, management considered the acquired TV and film production business as a CGU, and the recoverable amount of the CGU was determined using discounted cash flow calculations which derived from a six-year financial projection with annual revenue growth rate ranging from -43.4% to 21.7% and pre-tax discount rate of 18.7%. Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. As of 31 December 2020, the impairment review of the goodwill relating to the acquired TV and film production business was conducted again by the management using the same valuation method as of 30 June 2020.

For goodwill attributable to the Group's online game business and interactive live video business within VAS segment, fair value less costs of disposal was determined based on quoted market price of a listed subsidiary or ratios of EV (enterprise value) divided by EBITDA of several comparable public companies (range: 20-27x) (2019: range: 10-25x) multiplied by the EBITDA of the related CGU (or group of CGUs) and discounted for lack of marketability at a range of 10% to 20% (2019: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks.

Except as described above, management has not identified reasonably possible change in key assumptions that could cause carrying amounts of the CGUs (or groups of CGUs) to exceed the recoverable amount.

21 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	**171,048**	141,350
– Unlisted entities	**126,561**	72,264
	297,609	213,614

	2020	2019
	RMB'Million	RMB'Million
At beginning of the year	**213,614**	219,215
Additions (Note (a))	**37,651**	14,077
Transfers (Note (b))	**33,585**	(18,948)
Deemed disposal gains (Note 7(a))	**15,492**	4,859
Share of profit/(loss) of associates (Note 10)	**3,748**	(1,371)
Share of other comprehensive income of associates	**363**	130
Share of other changes in net assets of associates	**3,310**	2,322
Dividends	**(344)**	(550)
Disposals	**(2,227)**	(3,555)
Impairment provision, net (Note (c))	**(5,254)**	(3,877)
Currency translation differences	**(2,329)**	1,312
At end of the year	**297,609**	213,614

21 INVESTMENTS IN ASSOCIATES (continued)

Note:

(a) During the year ended 31 December 2020, the Group's additions to investments in associates mainly comprised the following:

(i) a consortium (the "UMG Consortium") formed together with Tencent Music Entertainment Group ("TME"), a non wholly-owned subsidiary of the Company, and certain global financial investors to acquire 10% equity interests in Universal Music Group ("UMG") from its parent company, Vivendi S.A.. According to the subscription agreements, the Group has significant influence on the UMG Consortium. The Group's investment in the UMG Consortium amounted to approximately EUR1.2 billion. As a result, the investment in the UMG Consortium has been accounted for as an associate by the Group; and

(ii) new associates and additional investments in existing associates with an aggregate amount of approximately RMB28,600 million during the year ended 31 December 2020 are principally engaged in online automobile finance transaction platform, games, software and other Internet-related business.

(b) During the year ended 31 December 2020, transfers mainly comprised the following:

(i) HUYA, an existing associate of approximately RMB5,221 million transferred to a subsidiary as a result of business combination (Note 41(a));

(ii) an existing associate of approximately RMB2,349 million transferred to FVOCI as a result of retirement of board representative; and

(iii) investments in associates of approximately RMB39,615 million transferred from FVPL as a result of changes in nature of these investments and investments in associates of approximately RMB5,075 million transferred from FVOCI due to acquiring board representatives.

(c) Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indications, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use.

In respect of the recoverable amount using value in use, the discounted cash flows calculations were based on cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rate, profit margins and discount rate. The pre-tax discount rates adopted range from 9% to 20%. In respect of the recoverable amount based on fair value less costs of disposal, except for those listed associates using their respective market prices, the fair value less costs of disposal was calculated using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

As a result, the Group made an aggregate impairment provision of approximately RMB5,254 million (2019: RMB3,877 million) against the carrying amounts of certain investments in associates during the year ended 31 December 2020, which includes impairment loss of approximately RMB10,611 million recognised and approximately RMB5,357 million reversed. The impairment provision/reversal mainly resulted from revisions of financial/business outlook of the associates and changes in the market environment of the underlying business.

21 INVESTMENTS IN ASSOCIATES (continued)

The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of its stakes in the associates which are listed entities, are shown in aggregate as follows:

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	Profit/(loss) from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive income/(loss) RMB'Million	Fair value of stakes in listed associates as at 31 December RMB'Million
2020							
Listed entities	**313,183**	**142,135**	**202,612**	**3,867**	**549**	**4,416**	**981,902**
Non-listed entities	**314,850**	**188,289**	**54,044**	**(119)**	**(186)**	**(305)**	
	628,033	**330,424**	**256,656**	**3,748**	**363**	**4,111**	
2019							
Listed entities	243,940	102,590	167,222	(4,462)	164	(4,298)	334,688
Non-listed entities	194,518	122,254	42,458	3,091	(34)	3,057	
	438,458	224,844	209,680	(1,371)	130	(1,241)	

21 INVESTMENTS IN ASSOCIATES (continued)

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and certain associates with shareholding over 50% (voting power is below 50%), with total carrying amounts of RMB212,349 million and RMB15,936 million as at 31 December 2020, respectively (31 December 2019: RMB145,971 million and RMB13,393 million, respectively). Management determined that it has significant influence thereon through the board representation or other arrangements made, and it has no control or joint control over such investees as the Group has no power to direct relevant activities due to other arrangements made. Consequently, these investments have been classified as associates.

There were no material contingent liabilities relating to the Group's interests in the associates.

22 INVESTMENTS IN JOINT VENTURES

As at 31 December 2020, the Group's investments in joint ventures of RMB7,649 million (31 December 2019: RMB8,280 million) mainly comprised investee companies that are principally a special purpose vehicle of which we have a majority stake therein for the investment in one of the telecommunication carriers in the PRC and other joint venture initiatives in new retail and entertainment-related business.

Share of loss amounting to RMB76 million was recognised during the year ended 31 December 2020 (2019: share of loss of RMB310 million) (Note 10).

During the year ended 31 December 2020, the Group made an aggregate impairment provision of RMB1,388 million (2019: impairment reversal of RMB54 million) against the carrying amounts of the investments in joint ventures, based on the respective assessed recoverable amounts.

23 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2020, the financial instruments of the Group are analysed as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Financial assets		
Financial assets at amortised cost:		
Deposits and other receivables (Note 26)	**17,527**	12,512
Term deposits (Note 29)	**100,168**	65,911
Accounts receivable (Note 30)	**44,981**	35,839
Cash and cash equivalents (Note 31(a))	**152,798**	132,991
Restricted cash (Note 31(b))	**2,520**	2,180
Other financial assets (Note 27)	**8**	–
Financial assets at fair value:		
FVPL (Note 24)	**172,537**	135,936
FVOCI (Note 25)	**213,091**	81,721
Other financial assets (Note 27)	**1,129**	375
	704,759	467,465
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings (Note 35)	**126,387**	126,952
Notes payable (Note 36)	**122,057**	93,861
Long-term payables (Note 37)	**9,910**	3,577
Other financial liabilities (Note 38)	**9,512**	8,703
Accounts payable (Note 39)	**94,030**	80,690
Lease liabilities (Note 18)	**14,020**	11,707
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 40)	**27,873**	23,528
Financial liabilities at fair value:		
Other financial liabilities (Note 38)	**5,309**	2,396
	409,098	351,414

23 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current assets:		
Investments in listed entities	**23,554**	10,408
Investments in unlisted entities	**133,506**	111,761
Treasury investments and others	**8,884**	6,653
	165,944	128,822
Included in current assets:		
Investments in listed entities	**10**	15
Treasury investments and others	**6,583**	7,099
	6,593	7,114
	172,537	135,936

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Movement of FVPL is analysed as follows:

	2020	2019
	RMB'Million	RMB'Million
At beginning of the year	**135,936**	97,877
Additions and transfers (Note (a) and Note 21(b))	**21,960**	43,197
Changes in fair value (Note 7)	**37,257**	9,511
Disposals and others	**(13,314)**	(16,664)
Currency translation differences	**(9,302)**	2,015
At end of the year	**172,537**	135,936

Note:

(a) During the year ended 31 December 2020, the Group's additions and transfers mainly comprised the following:

(i) an additional investment in an online video-sharing services platform of approximately USD1.5 billion (equivalent to approximately RMB10.3 billion), which was transferred to investments in associates as a result of changes in nature of the investment;

(ii) an additional investment in an online education platform in the Mainland of China of approximately USD720 million (equivalent to approximately RMB4,982 million);

(iii) new investments and additional investments with an aggregate amount of approximately RMB47,803 million in listed and unlisted entities. These companies are principally engaged in eCommerce, Internet platform, technology and other Internet-related businesses. None of the above investments was individually significant that triggers any disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time of inception; and

(iv) except as described in Note 21(b), transfers also mainly comprised certain investments with an aggregate amount of RMB1,723 million designated as FVOCI due to the conversion of preferred shares into ordinary shares upon their initial public offering ("IPO").

(b) Management has assessed the level of influence that the Group exercises on certain FVPL with shareholding exceeding 20%. Since these investments are either held in form of redeemable instruments or interests in limited life partnership without significant influence, these investments have been classified as FVPL.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Equity investments in listed entities	**199,465**	74,707
Equity investments in unlisted entities	**13,626**	7,014
	213,091	81,721

Movement of FVOCI is analysed as follows:

	2020	2019
	RMB'Million	RMB'Million
At beginning of the year	**81,721**	43,519
Additions and transfers (Note (a))	**16,474**	13,979
Changes in fair value	**131,655**	23,349
Disposals	**(6,957)**	(702)
Currency translation differences	**(9,802)**	1,576
At end of the year	**213,091**	81,721

Note:

(a) It mainly comprised new and additional investments of approximately RMB12,942 million, transfers described in Note 21(b) and Note 24(a), and step down gains due to an investee company transferred from investment in an associate of approximately RMB2,592 million (Note 7 (a)).

26 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media contents and game licences	**15,415**	15,731
Loans to investees and investees' shareholders (Note (a))	**1,078**	937
Prepayments for capital investments in investees	**889**	587
Running royalty fees for online games (Note (b))	**667**	564
Others	**6,581**	5,623
	24,630	23,442
Included in current assets:		
Running royalty fees for online games (Note (b))	**14,499**	10,888
Prepayments and prepaid expenses	**10,244**	8,353
Receivables related to financial services	**3,700**	19
Interest receivables	**2,948**	2,774
Lease deposits and other deposits	**966**	1,107
Refundable value-added tax	**865**	629
Loans to investees and investees' shareholders (Note (a))	**258**	447
Dividend and other investment-related receivables	**182**	1,034
Others	**6,659**	2,589
	40,321	27,840
	64,951	51,282

Note:

(a) As at 31 December 2020, the balances of loans to investees and investees' shareholders are mainly repayable within a period of one to five years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 12.0% per annum (31 December 2019: not higher than 12.0% per annum).

(b) Running royalty fees for online games comprised prepaid royalty fees, unamortised running royalty fees and deferred Online Service Fees.

As at 31 December 2020, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax) approximated their fair values. Deposits and other assets were neither past due nor impaired.

27 OTHER FINANCIAL ASSETS

As at 31 December 2020, the Group's current other financial assets mainly comprised a derivative contract and a call option held by a subsidiary of the Group to acquire additional equity interests in an investee company of the Group.

28 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	**13,132**	11,412
– to be recovered within 12 months	**11,873**	8,966
	25,005	20,378
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(17,991)**	(13,916)
– to be recovered within 12 months	**(1,727)**	(1,094)
	(19,718)	(15,010)

28 DEFERRED INCOME TAXES (continued)

The movements of the deferred income tax assets/liabilities account were as follows:

	Deferred income tax assets RMB'Million	**Deferred income tax liabilities RMB'Million**	**Deferred income tax, net RMB'Million**
At 1 January 2020	**18,209**	**(12,841)**	**5,368**
Business combinations	**165**	**(1,985)**	**(1,820)**
Credited/(charged) to consolidated income statement (Note 11)	**4,731**	**(5,129)**	**(398)**
Withholding taxes paid	**–**	**3,477**	**3,477**
Charged to consolidated statement of changes in equity	**(24)**	**(1,106)**	**(1,130)**
Currency translation differences	**(245)**	**35**	**(210)**
Set-off of deferred tax assets/liabilities	**(1,488)**	**1,488**	**–**
At 31 December 2020	**21,348**	**(16,061)**	**5,287**

	Deferred income tax assets RMB'Million	Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2019	15,755	(10,964)	4,791
Business combinations	20	(2,967)	(2,947)
Credited/(charged) to consolidated income statement (Note 11)	4,455	(3,237)	1,218
Withholding taxes paid	–	2,545	2,545
Credited/(charged) to consolidated statement of changes in equity	108	(338)	(230)
Currency translation differences	40	(49)	(9)
Set-off of deferred tax assets/liabilities	(2,169)	2,169	–
At 31 December 2019	18,209	(12,841)	5,368

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax assets before offsetting were as follows:

	Deferred income tax assets on temporary differences arising from				
	Accelerated amortisation of intangible assets RMB'Million	Tax losses RMB'Million (Note)	Accrued expenses RMB'Million	Share-based payments and others RMB'Million	Total RMB'Million
At 1 January 2020	**6,055**	**684**	**8,666**	**4,973**	**20,378**
Business combinations	**–**	**–**	**–**	**165**	**165**
Credited/(charged) to consolidated income statement	**1,112**	**(387)**	**1,792**	**2,214**	**4,731**
Charged to consolidated statement of changes in equity	**–**	**–**	**–**	**(24)**	**(24)**
Currency translation differences	**–**	**–**	**–**	**(245)**	**(245)**
At 31 December 2020	**7,167**	**297**	**10,458**	**7,083**	**25,005**
At 1 January 2019	4,404	91	8,078	3,182	15,755
Business combinations	–	–	–	20	20
Credited to consolidated income statement	1,651	593	588	1,623	4,455
Credited to consolidated statement of changes in equity	–	–	–	108	108
Currency translation differences	–	–	–	40	40
At 31 December 2019	6,055	684	8,666	4,973	20,378

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2020, the Group did not recognise deferred income tax assets of RMB2,783 million (31 December 2019: RMB1,889 million) in respect of cumulative tax losses amounting to RMB12,690 million (31 December 2019: RMB8,569 million). These tax losses in the Mainland of China will expire from 2021 to 2025.

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax liabilities before offsetting were as follows:

	Deferred income tax liabilities on temporary differences arising from						
	Intangible assets acquired in business combinations RMB'Million	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'Million	Change in fair value of FVPL and FVOCI RMB'Million	Deemed disposals of investees RMB'Million	Accelerated tax depreciation RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2020	**(3,627)**	**(5,781)**	**(1,743)**	**(886)**	**(2,746)**	**(227)**	**(15,010)**
Business combinations	**(1,965)**	**–**	**–**	**–**	**–**	**(20)**	**(1,985)**
Credited/(charged) to consolidated income statement	**760**	**(3,900)**	**(794)**	**(42)**	**(1,099)**	**(54)**	**(5,129)**
Withholding tax paid	**–**	**3,477**	**–**	**–**	**–**	**–**	**3,477**
Charged to consolidated statement of changes in equity	**–**	**–**	**(1,106)**	**–**	**–**	**–**	**(1,106)**
Currency translation differences	**(64)**	**16**	**82**	**–**	**–**	**1**	**35**
At 31 December 2020	**(4,896)**	**(6,188)**	**(3,561)**	**(928)**	**(3,845)**	**(300)**	**(19,718)**
At 1 January 2019	(892)	(5,668)	(1,299)	(919)	(1,634)	(552)	(10,964)
Business combinations	(2,958)	–	–	–	–	(9)	(2,967)
Credited/(charged) to consolidated income statement	223	(2,650)	(89)	33	(1,112)	358	(3,237)
Withholding tax paid	–	2,545	–	–	–	–	2,545
Charged to consolidated statement of changes in equity	–	–	(338)	–	–	–	(338)
Currency translation differences	–	(8)	(17)	–	–	(24)	(49)
At 31 December 2019	(3,627)	(5,781)	(1,743)	(886)	(2,746)	(227)	(15,010)

28 DEFERRED INCOME TAXES (continued)

As at 31 December 2020, the Group recognised the relevant deferred income tax liabilities of RMB6,188 million (31 December 2019: RMB5,781 million) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB33,832 million (31 December 2019: RMB21,139 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

29 TERM DEPOSITS

An analysis of the Group's term deposits by currencies is as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	**31,665**	19,000
Other currencies	**16**	–
	31,681	19,000
Included in current assets:		
RMB term deposits	**51,491**	28,598
USD term deposits	**14,083**	16,325
Other currencies	**2,913**	1,988
	68,487	46,911
	100,168	65,911

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2020, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.

30 ACCOUNTS RECEIVABLE

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Accounts receivable from contracts with customers	**48,873**	37,268
Loss allowance	**(3,892)**	(1,429)
	44,981	35,839

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

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
0 ~ 30 days	**19,708**	15,582
31 ~ 60 days	**10,867**	10,222
61 ~ 90 days	**4,506**	5,035
Over 90 days	**9,900**	5,000
	44,981	35,839

Majority of the Group's accounts receivable were denominated in RMB.

30 ACCOUNTS RECEIVABLE (continued)

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Online advertising customers and agencies	**12,961**	11,797
Content production related customers	**5,580**	5,260
FinTech and cloud customers	**15,835**	10,208
Third party platform providers	**5,416**	5,259
Others	**5,189**	3,315
	44,981	35,839

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.

The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The historical observed default rates are updated and changes in the forward-looking estimates are analysed at year end. For the year ended 31 December 2020 and 2019, information about the impairment of accounts receivable and the Group's exposure to credit risk and foreign currency risk can be found in Note 3.1.

As at 31 December 2020, the carrying amounts of accounts receivable approximated their fair values.

31 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Bank balances and cash	**85,233**	60,907
Term deposits and highly liquid investments with initial terms within three months	**67,565**	72,084
	152,798	132,991

Approximately RMB58,651 million (31 December 2019: RMB62,963 million) and RMB7,207 million (31 December 2019: RMB805 million) of the total balance of the Group's cash and cash equivalents was denominated in RMB and placed with banks in the Mainland of China and Hong Kong, respectively.

(b) Restricted cash

As at 31 December 2020, restricted deposits held at banks of RMB2,520 million (31 December 2019: RMB2,180 million) were mainly denominated in RMB.

32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

As at 31 December 2020 and 2019, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

	Number of issued and fully paid ordinary shares*	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2020	**9,552,615,286**	**–**	**35,271**	**(4,002)**	**31,269**
Employee share option schemes:					
– value of employee services	–	–	**1,768**	–	**1,768**
– shares issued (Note (a))	**14,656,747**	–	**1,716**	–	**1,716**
Employee share award schemes:					
– value of employee services	–	–	**9,720**	–	**9,720**
– shares withheld for share award schemes (Note (b))	–	–	–	**(1,865)**	**(1,865)**
– shares allotted for share award schemes (Note (c))	**26,640,678**	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	**(1,209)**	**1,209**	–
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	**1,527**	**246**	**1,773**
At 31 December 2020	**9,593,912,711**	**–**	**48,793**	**(4,412)**	**44,381**

32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

	Number of issued and fully paid ordinary shares*	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2019	9,520,307,091	–	27,294	(4,173)	23,121
Employee share option schemes:					
– value of employee services	–	–	2,041	–	2,041
– shares issued (Note (a))	1,612,741	–	272	–	272
Employee share award schemes:					
– value of employee services	–	–	7,303	–	7,303
– shares withheld for share award schemes (Note (b))	–	–	–	(1,186)	(1,186)
– shares allotted for share award schemes (Note (c))	34,182,154	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(1,357)	1,357	–
Repurchase and cancellation of shares	(3,486,700)	–	(1,046)	–	(1,046)
Acquisition of additional equity interests in non wholly-owned subsidiaries	–	–	276	–	276
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	488	–	488
At 31 December 2019	9,552,615,286	–	35,271	(4,002)	31,269

* As at 31 December 2020, the total number of issued ordinary shares of the Company included 81,517,187 shares (31 December 2019: 77,967,786 shares) held under the Share Award Schemes.

32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

Note:

(a) During the year ended 31 December 2020, 15,656,921 Post-IPO options (2019: 1,612,741 Post-IPO options) with exercise prices ranging from HKD112.30 to HKD444.20 (2019: HKD49.76 to HKD272.36) were exercised. The right to receive 1,000,174 options was surrendered by the grantees under the Post-IPO Option Scheme II to set off against the exercise price and individual income tax payable by the grantees when they exercise their options.

(b) During the year ended 31 December 2020, the Share Scheme Trust withheld 4,259,939 ordinary shares (2019: 4,047,457 ordinary shares) of the Company for an amount of approximately HKD2,108 million (equivalent to approximately RMB1,865 million) (2019: HKD1,332 million (equivalent to approximately RMB1,186 million)), which had been deducted from the equity.

(c) During the year ended 31 December 2020, the Company allotted 26,640,678 ordinary shares (2019: 34,182,154 ordinary shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the Share Award Schemes.

(d) During the year ended 31 December 2020, the Share Scheme Trust transferred 27,351,216 ordinary shares of the Company (2019: 23,537,445 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 34(b)).

33 OTHER RESERVES

	Capital reserves RMB'Million (Note (a))	FVOCI RMB'Million	Investments in associates and joint ventures RMB'Million	Currency translation differences RMB'Million	PRC statutory reserves RMB'Million (Note (b))	Share-based compensation reserves RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 1 January 2020	(13,792)	11,167	7,408	3,145	3,524	5,817	(483)	16,786
Transfer of gains on disposal and deemed disposal of financial instruments to retained earnings (Note (d))	–	(4,731)	–	–	–	–	(420)	(5,151)
Share of other changes in net assets of associates and joint ventures	–	–	3,320	–	–	–	–	3,320
Transfer of share of other changes in net assets of associates to profit or loss upon disposal and deemed disposal of associates	–	–	(154)	–	–	–	–	(154)
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	60	–	60
– Employee share award schemes	–	–	–	–	–	413	–	413
Tax benefit from share-based payments	–	–	–	–	–	588	–	588
Acquisition of additional equity interests in non wholly-owned subsidiaries	(2,795)	–	–	–	–	–	–	(2,795)
Transfer of equity interests of subsidiaries to non-controlling interests	(6,472)	–	–	–	–	–	–	(6,472)
Recognition of the financial liabilities in respect of the put option from business combination	(2,730)	–	–	–	–	–	–	(2,730)
Changes in put option liability in respect of non-controlling interests	(765)	–	–	–	–	–	–	(765)
Dilution of interests in subsidiaries	(684)	–	–	–	–	–	–	(684)
Profit appropriations to statutory reserves	–	–	–	–	736	–	–	736
Net gains from changes in fair value of FVOCI	–	127,873	–	–	–	–	–	127,873
Share of other comprehensive income of associates and joint ventures	–	–	347	–	–	–	–	347
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates	–	–	(3)	–	–	–	–	(3)
Currency translation differences	–	–	–	(9,016)	–	–	–	(9,016)
Other fair value losses, net	–	–	–	–	–	–	(1,214)	(1,214)
Balance at 31 December 2020	(27,238)	134,309	10,918	(5,871)	4,260	6,878	(2,117)	121,139

33 OTHER RESERVES (continued)

	Capital reserves RMB'Million (Note (a))	FVOCI RMB'Million	Investments in associates and joint ventures RMB'Million	Currency translation differences RMB'Million	PRC statutory reserves RMB'Million (Note (b))	Share-based compensation reserves RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 1 January 2019	(3,332)	(10,714)	5,112	217	2,790	4,847	1,809	729
Transfer of gains on disposal and deemed disposal of FVOCI to retained earnings (Note (d))	–	(720)	–	–	–	–	–	(720)
Share of other changes in net assets of associates	–	–	2,322	–	–	–	–	2,322
Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates	–	–	(149)	–	–	–	–	(149)
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	62	–	62
– Employee share award schemes	–	–	–	–	–	379	–	379
Tax benefit from share-based payments	–	–	–	–	–	529	–	529
Acquisition of additional equity interests in non wholly-owned subsidiaries	(534)	–	–	–	–	–	–	(534)
Transfer of equity interests of subsidiaries to non-controlling interests	(4,849)	–	–	–	–	–	–	(4,849)
Recognition of the financial liabilities in respect of the put option from business combination	(4,722)	–	–	–	–	–	–	(4,722)
Dilution of interests in subsidiaries	(355)	–	–	–	–	–	–	(355)
Profit appropriations to statutory reserves	–	–	–	–	734	–	–	734
Net gains from changes in fair value of FVOCI	–	22,601	–	–	–	–	–	22,601
Share of other comprehensive income of associates and joint ventures	–	–	126	–	–	–	–	126
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	–	–	(3)	–	–	–	–	(3)
Currency translation differences	–	–	–	2,928	–	–	–	2,928
Other fair value losses, net	–	–	–	–	–	–	(2,292)	(2,292)
Balance at 31 December 2019	(13,792)	11,167	7,408	3,145	3,524	5,817	(483)	16,786

33 OTHER RESERVES (continued)

Note:

(a) The capital reserve mainly arises from transactions undertaken with non-controlling interests.

(b) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profit (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer does not need to be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(c) Share-based compensation reserve arises from share option schemes and share award schemes adopted by the subsidiaries of the Group (Note 34(d)).

(d) The Group has elected to recognise changes in the fair value of certain investments in equity instruments in other comprehensive income. These changes are accumulated with FVOCI reserve with equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

34 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 December 2020, 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.

During the year ended 31 December 2020, the Company allows certain of the grantees under the Post-IPO Option Scheme II to surrender their rights to receive a portion of the underlying shares (with equivalent fair value) to set off against the exercise price and individual income tax payable when they exercise their options.

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme IV		Total
	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2020	**HKD185.86**	**50,358,800**	**HKD375.36**	**61,738,193**	**112,096,993**
Granted	**–**	**–**	**HKD396.39**	**9,318,989**	**9,318,989**
Exercised	**HKD129.34**	**(12,919,216)**	**HKD321.74**	**(2,737,705)**	**(15,656,921)**
Lapsed/forfeited	**HKD175.14**	**(4,450)**	**HKD364.34**	**(512,727)**	**(517,177)**
At 31 December 2020	**HKD205.36**	**37,435,134**	**HKD380.50**	**67,806,750**	**105,241,884**
Exercisable as at 31 December 2020	**HKD200.96**	**30,654,571**	**HKD376.39**	**20,038,030**	**50,692,601**
At 1 January 2019	HKD185.25	51,499,010	HKD374.52	36,277,234	87,776,244
Granted	–	–	HKD374.01	26,249,615	26,249,615
Exercised	HKD158.51	(1,138,985)	HKD272.36	(473,756)	(1,612,741)
Lapsed/forfeited	HKD148.90	(1,225)	HKD320.56	(314,900)	(316,125)
At 31 December 2019	HKD185.86	50,358,800	HKD375.36	61,738,193	112,096,993
Exercisable as at 31 December 2019	HKD172.30	33,855,872	HKD363.68	10,997,475	44,853,347

During the year ended 31 December 2020, 4,399,815 options (2019: 3,506,580 options) were granted to an executive director of the Company.

During the year ended 31 December 2020, 15,656,921 options (2019: 1,612,741 options) were exercised. The weighted average price of the shares at the time these options were exercised was HKD539.43 per share (equivalent to approximately RMB464.09 per share) (2019: HKD339.07 per share (equivalent to approximately RMB301.04 per share)).

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2020 and 2019 are as follows:

		Number of share options	
		31 December	31 December
Expiry Date	**Range of exercise price**	**2020**	2019
7 years commencing from	HKD112.30~HKD174.86	**11,082,519**	22,761,755
the date of grant of options	HKD225.44~HKD272.36	**32,520,471**	35,450,183
(Post-IPO Option Scheme II and	HKD334.20~HKD386.60	**37,549,600**	31,308,935
Post-IPO Option Scheme IV)	HKD403.16~HKD444.20	**22,362,446**	22,576,120
	HKD518.00~HKD586.00	**1,726,848**	–
		105,241,884	112,096,993

The outstanding share options as of 31 December 2020 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from ten months to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company have used the Binomial Model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2020 was HKD115.13 per share (equivalent to approximately RMB104.72 per share) (2019: HKD123.82 per share (equivalent to approximately RMB106.09 per share)).

Other than the exercise price mentioned above, significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors in applying the Binomial Model, which are summarised as below.

	2020	2019
Weighted average share price at the grant date	**HKD396.24**	HKD373.33
Risk free rate	**0.27%~1.52%**	1.08%~2.07%
Dividend yield	**0.23%**	0.23%
Expected volatility (Note)	**30.00%~31.00%**	30.00%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

34 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted three share award schemes (the "Share Award Schemes") as of 31 December 2020, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the years ended 31 December 2020 and 2019 are as follows:

	Number of awarded shares	
	2020	2019
At beginning of the year	**76,615,755**	50,247,895
Granted	**37,196,540**	53,096,782
Lapsed/forfeited	**(3,866,143)**	(3,191,477)
Vested and transferred	**(27,351,216)**	(23,537,445)
At end of the year	**82,594,936**	76,615,755
Vested but not transferred as at the end of the year	**30,172**	46,313

During the year ended 31 December 2020, 59,500 awarded shares were granted to five independent non-executive directors of the Company (2019: 59,484 awarded shares were granted to five independent non-executive directors of the Company).

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2020 was HKD481.61 per share (equivalent to approximately RMB431.90 per share) (2019: HKD360.25 per share (equivalent to approximately RMB313.18 per share)).

The outstanding awarded shares as of 31 December 2020 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from eight months to five years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

34 SHARE-BASED PAYMENTS (continued)

(c) Employee investment schemes

For aligning the interests of key employees with the Group, the Group established several employees' investment plans in the form of limited liability partnerships (the "EIS") among which the five EISs established in 2014, 2015, 2016, and 2017 are in effect as at 31 December 2020. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the years ended 31 December 2020 and 2019 were insignificant to the Group.

(d) Share options and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the respective board of directors of these subsidiaries at their sole discretion and in accordance with the relevant rules. The share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries ("Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that some of them would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method. For some of them settled in cash, they are accounted for using cash-settled share-based payment method.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2020, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be not lower than 91% (31 December 2019: not lower than 95%).

35 BORROWINGS

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	**110,629**	88,354
Non-current portion of long-term EUR bank borrowings, unsecured (Note (a))	**1,204**	1,172
Non-current portion of long-term EUR bank borrowings, secured (Note (a))	**12**	–
Non-current portion of long-term RMB bank borrowings, unsecured (Note (a))	**300**	10,196
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	**–**	4,535
	112,145	104,257
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	**9,135**	6,627
HKD bank borrowings, unsecured (Note (b))	**–**	9,298
HKD bank borrowings, secured (Note (b))	**144**	–
RMB bank borrowings, unsecured (Note (b))	**4,079**	902
RMB bank borrowings, secured (Note (b))	**100**	201
Current portion of long-term USD bank borrowings, unsecured (Note (a))	**783**	140
Current portion of long-term RMB bank borrowings, unsecured (Note (a))	**–**	4,633
Current portion of long-term EUR bank borrowings, secured (Note (a))	**1**	–
Current portion of long-term HKD bank borrowings, unsecured (Note (a))	**–**	894
	14,242	22,695
	126,387	126,952

35 BORROWINGS (continued)

Note:

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

	31 December 2020		31 December 2019	
	Amount (Million)	**Interest rate (per annum)**	Amount (Million)	Interest rate (per annum)
USD bank borrowings	**USD17,075**	**LIBOR + 0.70% ~ 1.27%**	USD12,685	LIBOR + 0.70% ~ 1.27%
EUR bank borrowings	**EUR151**	**0.52% ~ 1.00%**	EUR150	0.52%
HKD bank borrowings	**–**	**–**	HKD6,070	HIBOR + 0.70% ~ 0.80%
RMB bank borrowings	**RMB300**	**5.70%**	RMB14,829	4.18% ~ 5.70%

The long-term bank borrowings are repayable as follows:

	As at 31 December	
	2020 RMB'Million	2019 RMB'Million
Within 1 year	**784**	5,667
Between 1 and 2 years	**4,409**	18,449
Between 2 and 5 years	**107,735**	85,808
Over 5 years	**1**	–
	112,929	109,924

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

	31 December 2020		31 December 2019	
	Amount (Million)	**Interest rate (per annum)**	Amount (Million)	Interest rate (per annum)
USD bank borrowings	**USD1,400**	**LIBOR + 0.45% ~ 0.50%**	USD950	LIBOR + 0.5%
HKD bank borrowings	**HKD171**	**HIBOR + 0.90% ~ 3.90%**	HKD10,395	HIBOR + 0.45% ~ 0.50%
RMB bank borrowings	**RMB4,179**	**3.55% ~ 5.22%**	RMB1,103	3.60% ~ 5.22%

During the year ended 31 December 2020, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2020 have been detailed in Note 38.

As at 31 December 2020, the carrying amounts of borrowings approximated their fair values.

36 NOTES PAYABLE

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	**122,057**	83,327
Included in current liabilities:		
Current portion of long-term USD notes payable	**–**	7,672
Current portion of long-term HKD notes payable	**–**	2,862
	–	10,534
	122,057	93,861

The aggregate principal amounts of USD notes payable were USD18,800 million (31 December 2019: USD13,100 million and HKD3,200 million). Applicable interest rates are at 1.375% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910% (2019: rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910%) per annum.

During the year ended 31 December 2020, the Group had entered into certain interest rate swap contracts to hedge its exposure arising from its senior notes carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2020 are detailed in Note 38.

The notes payable are repayable as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Within 1 year	**–**	10,534
Between 2 and 5 years	**30,572**	24,335
More than 5 years	**91,485**	58,992
	122,057	93,861

36 NOTES PAYABLE (continued)

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

In May 2020, the Company updated the Global Medium Term Note Programme (the "Programme") to include, among other things, the Company's recent corporate and financial information.

In June 2020, the Company issued four tranches of senior notes under the Programme with an aggregate principal amount of USD6 billion from 5.5 years to 40 years, with interest rate ranging from 1.810% to 3.290%.

In September 2020, TME issued two tranches of senior notes with an aggregate principal amount of USD800 million from 5 years to 10 years, with interest rate ranging from 1.375% to 2.000%.

During the year ended 31 December 2020, the notes payable with an aggregate principal amount of USD1,100 million issued in February 2015, an aggregate principal amount of HKD2,000 million issued in May 2014 and an aggregate principal amount of HKD1,200 million issued in October 2014 reached their maturity and were repaid in full by the Group.

As at 31 December 2020, the fair value of the notes payable amounted to RMB132,037 million (31 December 2019: RMB98,668 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.

37 LONG-TERM PAYABLES

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Payables relating to media contents and running royalty fee for online games	**7,290**	1,281
Cash-settled share-based compensation payables (Note 34(d))	**1,018**	980
Purchase consideration payables for investee companies	**104**	298
Others	**1,498**	1,018
	9,910	3,577

38 OTHER FINANCIAL LIABILITIES

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Measured at amortised cost:		
Redemption liability (Note (a))	**9,512**	8,703
Measured at fair value:		
Contingent consideration	**3,308**	1,873
Interest rate swap (Note (b))	**1,937**	494
Others	**64**	29
	14,821	11,099
Included in:		
Non-current liabilities	**9,254**	5,242
Current liabilities	**5,567**	5,857
	14,821	11,099

Note:

(a) It comprised redemption liability arising from put option arrangements with non-controlling shareholders of acquired subsidiaries of approximately RMB9,512 million (31 December 2019: RMB8,703 million).

(b) The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts were USD15,058 million (equivalent to approximately RMB98,252 million) (31 December 2019: USD4,025 million and HKD1,500 million (equivalent to approximately RMB29,423 million)).

39 ACCOUNTS PAYABLE

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

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
0 ~ 30 days	**82,916**	67,054
31 ~ 60 days	**2,196**	2,975
61 ~ 90 days	**665**	1,442
Over 90 days	**8,253**	9,219
	94,030	80,690

40 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Staff costs and welfare accruals	**25,541**	20,110
Selling and marketing expense accruals	**7,015**	4,772
General and administrative expenses accruals	**2,750**	1,932
Purchase consideration payables for investee companies	**2,548**	1,979
Interests payable	**1,119**	1,245
Prepayments received from customers and others	**894**	1,536
Purchase of land use rights and construction related costs	**844**	5,622
Others (Note)	**13,597**	7,978
	54,308	45,174

Note:

Others primarily consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.

41 BUSINESS COMBINATION

(a) Step-up acquisition of HUYA

On 3 April 2020 (the "Acquisition Date of HUYA"), the Group exercised its call option to acquire additional 16,523,819 Class B ordinary shares in an associate, HUYA for an aggregate purchase price of approximately USD262.6 million (equivalent to approximately RMB1,860 million) in cash from JOYY Inc.. HUYA is a leading game live streaming platform in China. After the transaction, the Group increased its voting power in HUYA to 50.9% and equity interests in HUYA to 36.9% on an outstanding basis, and the Group considers it having sufficient power to control HUYA. As a result, HUYA was accounted for as a subsidiary of the Group upon the completion of the transaction ("Step-up Acquisition"). The equity interest held under investment in an associate was accounted for a deemed disposal at its fair value and resulted in step up gains of approximately RMB2,189 million.

For the non-controlling interest in HUYA, the Group elected to recognise the non-controlling interests that are present ownership interests measured at its proportionate share of the acquired identifiable net assets, and other components of non-controlling interests measured at the acquisition-date fair value. Goodwill of approximately RMB5,272 million was recognised as a result of the Step-up Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from integration of the operations with the Group. None of the goodwill is expected to be deductible for income tax purpose.

41 BUSINESS COMBINATION (continued)

(a) Step-up acquisition of HUYA (continued)

The following table summarises the purchase consideration, fair value of assets acquired, liabilities assumed and the non-controlling interest recognised as at the Acquisition Date of HUYA.

	As at 3 April 2020 RMB'Million
Total consideration:	
Cash paid	**1,860**
Fair value of the previously held interests	**7,260**
	9,120
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Intangible assets	**3,864**
Term deposits and others	**10,060**
Prepayments, deposits and other assets	**534**
Cash and cash equivalents	**659**
Other assets	**335**
Deferred income tax liabilities	**(574)**
Deferred revenue	**(862)**
Accounts payable	**(1,088)**
Other payables and accruals	**(442)**
Other liabilities	**(187)**
Total identifiable net assets:	**12,299**
Non-controlling interests	**(8,451)**
Goodwill	**5,272**
	9,120

Note:

The Group's revenue for the year would be increased by not more than 5% and results for the year would not be materially different should the Step-up Acquisition have occurred on 1 January 2020.

The related transaction costs of the Step-up Acquisition are not material to the Group's consolidated financial statements.

41 BUSINESS COMBINATION (continued)

(b) Privatisation of Bitauto Holdings Limited ("Bitauto")

On 4 November 2020 (the "Acquisition Date of Bitauto"), a consortium (the "Bitauto Consortium") led by the Group and another investor entered into an agreement to acquire 100% equity interests of Bitauto, an existing FVPL of the Group and the shares of which were listed on the New York Stock Exchange (NYSE: BITA), at a total consideration of USD1,154 million (equivalent to approximately RMB7,589 million) in a going private transaction. After the closing of the transaction, the Group became interested in 68.2% equity interests of Bitauto on an outstanding basis, and the Group considers it having sufficient power to control Bitauto. As a result, Bitauto was accounted for as a subsidiary of the Group upon the closing of the transaction and ceased to be a publicly traded company.

Goodwill of approximately RMB814 million was recognised as a result of the transaction. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose. The Group chose to record the non-controlling equity interests in Bitauto Consortium at fair value on Acquisition Date of Bitauto.

41 BUSINESS COMBINATION (continued)

(b) Privatisation of Bitauto Holdings Limited ("Bitauto") (continued)

The following table summarises the purchase consideration, fair value of assets acquired, liabilities assumed and the non-controlling interest recognised as at the Acquisition Date of Bitauto.

	As at 4 November 2020 RMB'Million
Total consideration:	
Cash consideration	**5,745**
Fair value of the previously held interests and rollover shares	**1,844**
	7,589
Non-controlling interests	**(2,415)**
Total consideration attributable to the Company's equity holders	**5,174**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Intangible assets	**836**
Investments in associates	**5,186**
Investments in joint ventures	**812**
Financial assets at fair value through profit or loss	**880**
Prepayments, deposits and other assets	**4,095**
Accounts receivable	**1,324**
Cash and cash equivalents	**2,071**
Deferred income tax liabilities	**(204)**
Deferred revenue	**(1,955)**
Accounts payable	**(2,161)**
Borrowings	**(699)**
Current income tax liabilities	**(349)**
Other liabilities	**(2,854)**
Total identifiable net assets:	**6,982**
Non-controlling interests	**(2,622)**
Goodwill	**814**
	5,174

41 BUSINESS COMBINATION (continued)

(b) Privatisation of Bitauto Holdings Limited ("Bitauto") (continued)

Note:

The Group's revenue for the year would be increased by not more than 5% and results for the year would not be materially different should the transaction have occurred on 1 January 2020.

The related transaction costs of the transaction are not material to the Group's consolidated financial statements.

(c) Privatisation of Leyou Technologies Holdings Limited ("Leyou")

On 21 December 2020 (Cayman Islands time), the Group entered into an exclusivity agreement with Leyou, a company listed on the Stock Exchange (Ticker: HK.1089) to acquire 100% equity interests of Leyou, at a total consideration of HKD10,695 million (equivalent to approximately RMB9,076 million) in a going private transaction. As a result, Leyou was accounted for as a wholly-owned subsidiary of the Group upon completion of the transaction and ceased to be a publicly traded company.

Goodwill of approximately RMB6,045 million was recognised as a result of the transaction. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose. The Group chose to record the non-controlling equity interests in Leyou at fair value on the acquisition date of Leyou.

The Group's revenue for the year would be increased by not more than 5% and results for the year would not be materially different should the transaction have occurred on 1 January 2020.

The related transaction costs of the transaction are not material to the Group's consolidated financial statements.

(d) Other business combinations

During the year ended 31 December 2020, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions were approximately RMB6,718 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB2,141 million, RMB1,326 million and RMB5,903 million, respectively.

The revenue and the results contributed by these acquired subsidiaries for the period since respective acquisition date were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions have occurred on 1 January 2020.

The related transaction costs of these business combinations are not material to the Group's consolidated financial statements.

42 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash inflow from operating activities:

	2020	2019
	RMB'Million	RMB'Million
Profit for the year	**160,125**	95,888
Adjustments for:		
Income tax expense	**19,897**	13,512
Net gains on disposals and deemed disposals of investee companies	**(24,390)**	(8,492)
Dividend income	**(1,765)**	(1,014)
Depreciation of property, plant and equipment, investment properties and right-of-use assets	**21,458**	15,623
Amortisation of intangible assets and land use rights	**29,316**	29,050
Net gains on disposals of intangible assets and property, plant and equipment	**(120)**	(85)
Interest income	**(6,957)**	(6,314)
Interest expense	**7,449**	7,690
Equity-settled share-based compensation expenses	**12,634**	10,127
Share of (profit)/loss of associates and joint ventures	**(3,672)**	1,681
Impairment provision for investments in associates and joint ventures	**6,642**	3,823
Net fair value gains on FVPL and other financial instruments	**(38,909)**	(11,158)
Impairment of intangible assets	**4,872**	234
Exchange losses/(gains)	**438**	(77)
Changes in working capital:		
Accounts receivable	**(7,530)**	(6,037)
Inventories	**(95)**	(394)
Prepayments, deposits and other receivables	**117**	(3,953)
Accounts payable	**13,033**	6,445
Other payables and accruals	**2,828**	7,022
Other tax liabilities	**886**	193
Deferred revenue	**18,184**	12,054
Cash generated from operating activities	**214,441**	165,818

42 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Major non-cash transactions

There were no material non-cash transactions during the year ended 31 December 2020.

(c) Net cash/(debt) reconciliation

This section sets out an analysis of net cash/(debt) and the movements in net cash/(debt) for each of the years presented.

Net cash/(debt)	**As at 31 December**	
	2020	2019
	RMB'Million	RMB'Million
Cash and cash equivalents	**152,798**	132,991
Term deposits and others	**106,709**	72,270
Borrowings – repayable within one year	**(14,242)**	(22,695)
Borrowings – repayable after one year	**(112,145)**	(104,257)
Notes payable – repayable within one year	**–**	(10,534)
Notes payable – repayable after one year	**(122,057)**	(83,327)
Net cash/(debt)	**11,063**	(15,552)

42 CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Net cash/(debt) reconciliation (continued)

	Cash and cash equivalents RMB'Million	Term deposits and others RMB'Million	Borrowings due within 1 year RMB'Million	Borrowings due after 1 year RMB'Million	Notes payable due within 1 year RMB'Million	Notes payable due after 1 year RMB'Million	Total RMB'Million
Net debt as at							
1 January 2020	**132,991**	**72,270**	**(22,695)**	**(104,257)**	**(10,534)**	**(83,327)**	**(15,552)**
Cash flows	**25,811**	**23,938**	**9,105**	**(16,107)**	**10,460**	**(47,948)**	**5,259**
Exchange impacts	**(6,004)**	**(2,214)**	**619**	**7,792**	**76**	**9,277**	**9,546**
Other non-cash movements	**–**	**12,715**	**(1,271)**	**427**	**(2)**	**(59)**	**11,810**
Net cash as at							
31 December 2020	**152,798**	**106,709**	**(14,242)**	**(112,145)**	**–**	**(122,057)**	**11,063**
Net debt as at							
1 January 2019	97,814	69,305	(26,834)	(87,437)	(13,720)	(51,298)	(12,170)
Cash flows	34,092	(1,007)	16,092	(12,316)	13,465	(40,202)	10,124
Exchange impacts	1,085	49	(247)	(918)	(128)	(1,923)	(2,082)
Other non-cash movements	–	3,923	(11,706)	(3,586)	(10,151)	10,096	(11,424)
Net debt as at							
31 December 2019	132,991	72,270	(22,695)	(104,257)	(10,534)	(83,327)	(15,552)

43 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2020 and 2019 are analysed as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	**3,541**	4,180
Purchase of other property, plant and equipment	**391**	331
Capital investment in investees	**21,656**	18,206
	25,588	22,717

(b) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media contents agreements are as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**11,443**	12,405
Later than one year and not later than five years	**9,847**	17,647
Later than five years	**4,199**	3,323
	25,489	33,375

44 RELATED PARTY TRANSACTIONS

Except as disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 26 (Loans to investees and investees' shareholders) and Note 34 (Share-based payments) to the consolidated financial statements, other significant transactions carried out between the Group and its related parties during the years are presented as followings. The related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Significant transactions with related parties

The Group has commercial arrangements with certain associates and joint ventures to provide Online Advertising services, FinTech and Business Services, and other services. During the year ended 31 December 2020, revenue recognised in connection with these services provided to associates and joint ventures of RMB11,554 million, RMB25,885 million and RMB2,629 million were recorded in the consolidated income statement, respectively (2019: RMB6,189 million, RMB21,838 million and RMB2,016 million, respectively).

The Group has commercial arrangements with certain associates to purchase online game licenses and related services, film and television content and related services, FinTech and Business Services and others. During the year ended 31 December 2020, the amounts relating to these contents and services received from associates were RMB8,266 million, RMB5,285 million, RMB3,058 million and RMB1,489 million, respectively (2019: RMB4,620 million, RMB4,801 million, RMB1,174 million and RMB1,183 million, respectively).

44 RELATED PARTY TRANSACTIONS (continued)

(b) Year end balances with related parties

As at 31 December 2020, trade receivables and other receivables from related parties were RMB9,840 million and RMB67 million, respectively (31 December 2019: RMB8,723 million and RMB89 million, respectively).

As at 31 December 2020, trade payables and other payables to related parties were RMB3,719 million and RMB333 million, respectively (31 December 2019: RMB3,466 million and RMB284 million, respectively).

During the year ended 31 December 2020, the Group had undertaken transactions relating to the provision of various services such as FinTech services, business services and online advertising to certain associates, which mainly engaged in various Internet businesses such as eCommerce, O2O platforms, FinTech services under, among others, certain business co-operation arrangements. As at 31 December 2020, contract liabilities relating to support to be offered to certain associates and joint ventures were RMB5,469 million (31 December 2019: RMB3,636 million).

Other than the transactions and balances disclosed above or elsewhere in the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2020 and 2019, and no other material balances with related parties as at 31 December 2020 and 2019.

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
ASSETS		
Non-current assets		
Intangible assets	**37**	44
Investments in subsidiaries	**157,481**	76,024
Investments in associates	**76**	–
Contribution to Share Scheme Trust	**81**	9
	157,675	76,077
Current assets		
Amounts due from subsidiaries	**26,565**	74,605
Prepayments, deposits and other receivables	**312**	7
Cash and cash equivalents	**80**	52
	26,957	74,664
Total assets	**184,632**	150,741

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) Financial position of the Company (continued)

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	**–**	–
Share premium	**48,793**	35,271
Shares held for share award schemes	**(4,412)**	(4,002)
Other reserves (b)	**(1,114)**	171
Retained earnings (b)	**2,685**	2,729
Total equity	**45,952**	34,169
LIABILITIES		
Non-current liabilities		
Notes payable	**116,883**	83,327
Other financial liabilities	**236**	701
	117,119	84,028
Current liabilities		
Amounts due to subsidiaries	**20,481**	18,773
Other payables and accruals	**1,080**	3,237
Notes payable	**–**	10,534
	21,561	32,544
Total liabilities	**138,680**	116,572
Total equity and liabilities	**184,632**	150,741

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(b) Reserve movement of the Company

	Retained earnings RMB'Million	Other reserves RMB'Million
At 1 January 2020	**2,729**	**171**
Profit for the year	**10,405**	**–**
Dividends	**(10,449)**	**–**
Currency translation differences	**–**	**(1,285)**
At 31 December 2020	**2,685**	**(1,114)**
At 1 January 2019	5,443	(179)
Profit for the year	5,591	–
Dividends	(8,305)	–
Currency translation differences	–	350
At 31 December 2019	2,729	171

46 SUBSEQUENT EVENTS

On 29 January 2021, the UMG Consortium led by the Group has completed the acquisition of an additional 10% equity interests in UMG from its parent company, Vivendi S.A., based on the same enterprise value of EUR30 billion for 100% of UMG's share capital as in the initial 10% acquisition that closed in March 2020. The UMG Consortium comprises the same members as those for the initial 10% investment in UMG, including TME and other financial investors. Upon the closing of the transaction, the UMG Consortium's equity ownership in UMG has increased to 20%. The investment in the UMG Consortium has still been accounted for as an associate by the Group.

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2020:

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Computer	Established in the PRC, limited liability company	RMB65,000,000	100% (Note (a))	Provision of value-added services and Internet advertisement services in the PRC
Tencent Technology	Established in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	Development of softwares and provision of information technology services in the PRC
Shenzhen Shiji Kaixuan Technology Company Limited	Established in the PRC, limited liability company	RMB11,000,000	100% (Note (a))	Provision of Internet advertisement services in the PRC
Tencent Cyber (Tianjin) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Asset Management Limited	Established in the British Virgin Islands, limited liability company	USD100	100%	Asset management in Hong Kong
Tencent Technology (Beijing) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	Development and sale of softwares and provision of information technology services in the PRC
Nanjing Wang Dian Technology Company Limited	Established in the PRC, limited liability company	RMB10,290,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing BIZCOM Technology Company Limited	Established in the PRC, limited liability company	RMB1,216,500,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing Starsinhand Technology Company Limited	Established in the PRC, limited liability company	RMB10,000,000	100% (Note (a))	Provision of value-added services in the PRC

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares in the PRC
Tencent Technology (Shanghai) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Chengdu) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD220,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Wuhan) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Cloud Computing (Beijing) Company Limited	Established in the PRC, limited liability company	RMB1,042,500,000	100% (Note (a))	Provision of information system integration services in the PRC
Morespark Limited	Established in Hong Kong, limited liability company	HKD1,000	100%	Investment holding and provision of online advertisement services in Hong Kong
Beijing Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC
Riot Games, Inc.	Established in the United States, limited liability company	USD1,306	100%	Development and operation of online games in the United States
China Literature Limited	Established in the Cayman Islands, limited liability company	USD101,578	57.57%*	Provision of online literature services in the PRC

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
TME	Established in the Cayman Islands, limited liability company	USD277,999	49.06%*	Provision of online music entertainment services in the PRC
Supercell Oy	Established in Finland, limited liability company	EUR2,500	70.03%	Development and operation of mobile games in Finland
Shenzhen Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC

* on an outstanding basis

Note:

(a) As described in Note 1, the Company does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.

(b) The directors of the Company considered that the non wholly-owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarised financial information of these non wholly-owned subsidiaries is presented separately.

(c) All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary's undertakings held directly by the parent company does not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Note: (continued)

(d) Significant restrictions

As at 31 December 2020, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB146,762 million were held in the Mainland of China and they are subject to local exchange control and other financial and treasury regulations. The local exchange control, and other financial and treasury regulations provide for restrictions, on payment of dividends, share repurchase and offshore investments, other than through normal activities.

(e) Consolidation of structured entities

As mentioned in Note (a) above and Note 34(c), the Company has consolidated the operating entities within the Group without any legal interests and the EISs out of which wholly-owned subsidiaries of the Company act as general partner. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 34(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	**Principal activities**
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

During the year ended 31 December 2020, the Company contributed approximately RMB1,865 million (2019: RMB1,186 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.

羅兵咸永道

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 136 to 264, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

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

- Impairment assessments of goodwill, investments in associates and joint ventures

- Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities

Key Audit Matter

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

Refer to Note 2.30(a), 4(a) and 5(b) to the consolidated financial statements

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

During the year ended 31 December 2019, a majority of the Group's revenue from value-added services was contributed from online games and was predominately derived from the sales of virtual products/items.

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

How our audit addressed the Key Audit Matter

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

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and joint ventures Refer to Notes 2.13(a), 2.15, 4(b), 20, 21 and 22 to the consolidated financial statements As at 31 December 2019, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB93,456 million, RMB213,614 million and RMB8,280 million, respectively. Impairment of RMB20 million and RMB3,877 million had been provided for against the carrying amounts of goodwill and investments in associates, respectively, and a reversal of impairment of RMB54 million had been made against the carrying amounts of investments in joint ventures during the year ended 31 December 2019. We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgments were required by management (i) to identify whether any impairment indicators existed for any of these assets during the year; (ii) to determine the appropriate impairment approaches, i.e. fair value less costs of disposal or value in use; and (iii) to select key assumptions to be adopted in the valuation models, including discounted cash flows and market approach, for the impairment assessments.	We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information. We also tested, on a sample basis, key controls in respect of the impairment assessments, including the determination of appropriate impairment approaches, valuation models and assumptions and the calculation of impairment provisions, which we found no material exceptions. Management adopted different valuation models, on a case by case basis, in carrying out the impairment assessments, mainly including discounted cash flows and market approach. We assessed, on a sample basis, the basis management used to identify separate groups of cash generating units that contain goodwill, the impairment approaches and the valuation models used in management's impairment assessments, which we found them to be appropriate. In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using discounted cash flows, we assessed the key assumptions adopted including revenue growth rates, profit margins, discount rates and other assumptions by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable industry/business data external to the Group. We assessed certain of these key assumptions with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities Refer to Notes 3.3, 4(c), 24, 25, 38 to the consolidated financial statements As at 31 December 2019, the Group's financial assets and financial liabilities which were carried at fair value comprised financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities of approximately RMB135,936 million, RMB81,721 million and RMB2,396 million, respectively, of which approximately RMB123,093 million of these financial assets and approximately RMB1,873 million of these financial liabilities were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". We focused on this area due to the high degree of judgment required in determining the respective fair values of Level 3 financial instruments, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation.	In respect of the fair value measurement of Level 3 financial instruments, we tested the key controls, on a sample basis, in relation to the valuation process including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review, which we found no material exceptions. We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested, on a sample basis, valuation of Level 3 financial instruments as at 31 December 2019 by evaluating the underlying assumptions and inputs including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) as well as underlying supporting documentation. We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. We found that the valuation methodology of Level 3 financial instruments is acceptable and the assumptions made by management are supported by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'Million	2018 RMB'Million
Revenues			
Value-added Services		**199,991**	176,646
FinTech and Business Services (*)		**101,355**	73,138
Online Advertising		**68,377**	58,079
Others (*)		**7,566**	4,831
	5	**377,289**	312,694
Cost of revenues	8	**(209,756)**	(170,574)
Gross profit		**167,533**	142,120
Interest income	6	**6,314**	4,569
Other gains, net	7	**19,689**	16,714
Selling and marketing expenses	8	**(21,396)**	(24,233)
General and administrative expenses	8	**(53,446)**	(41,522)
Operating profit		**118,694**	97,648
Finance costs, net	9	**(7,613)**	(4,669)
Share of (loss)/profit of associates and joint ventures, net	10	**(1,681)**	1,487
Profit before income tax		**109,400**	94,466
Income tax expense	11	**(13,512)**	(14,482)
Profit for the year		**95,888**	79,984
Attributable to:			
Equity holders of the Company		**93,310**	78,719
Non-controlling interests		**2,578**	1,265
		95,888	79,984
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	12(a)	**9.856**	8.336
– diluted	12(b)	**9.643**	8.228

* *Due to the changes on segment presentation (Note 5), the comparative figures in the consolidated income statement have been restated to conform with the new presentation.*

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	RMB'Million	RMB'Million
Profit for the year	**95,888**	79,984
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
Share of other comprehensive income of associates and joint ventures	**125**	23
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	**(3)**	–
Currency translation differences	**3,089**	4,133
Other fair value (losses)/gains, net	**(2,139)**	181
Items that will not be subsequently reclassified to profit or loss		
Net gains/(losses) from changes in fair value of financial assets at fair value through other comprehensive income	**23,119**	(16,391)
Other fair value losses	**(178)**	(170)
	24,013	(12,224)
Total comprehensive income for the year	**119,901**	67,760
Attributable to:		
Equity holders of the Company	**116,670**	66,339
Non-controlling interests	**3,231**	1,421
	119,901	67,760

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

		As at 31 December	
		2019	2018
	Note	**RMB'Million**	RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	**46,824**	35,091
Land use rights	17	**15,609**	7,106
Right-of-use assets	2.2,18	**10,847**	–
Construction in progress	19	**3,935**	4,879
Investment properties		**855**	725
Intangible assets	20	**128,860**	56,650
Investments in associates	21	**213,614**	219,215
Investments in joint ventures	22	**8,280**	8,575
Financial assets at fair value through profit or loss	24	**128,822**	91,702
Financial assets at fair value through other comprehensive income	25	**81,721**	43,519
Prepayments, deposits and other assets	26	**23,442**	21,531
Other financial assets	27	**–**	1,693
Deferred income tax assets	28	**18,209**	15,755
Term deposits	29	**19,000**	–
		700,018	506,441
Current assets			
Inventories		**718**	324
Accounts receivable	30	**35,839**	28,427
Prepayments, deposits and other assets	26	**27,840**	18,493
Other financial assets	27	**375**	339
Financial assets at fair value through profit or loss	24	**7,114**	6,175
Term deposits	29	**46,911**	62,918
Restricted cash	31	**2,180**	2,590
Cash and cash equivalents	31	**132,991**	97,814
		253,968	217,080
Total assets		**953,986**	723,521

Consolidated Statement of Financial Position

As at 31 December 2019

		As at 31 December	
		2019	2018
	Note	**RMB'Million**	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	32	**–**	–
Share premium	32	**35,271**	27,294
Shares held for share award schemes	32	**(4,002)**	(4,173)
Other reserves	33	**16,786**	729
Retained earnings		**384,651**	299,660
		432,706	323,510
Non-controlling interests		**56,118**	32,697
Total equity		**488,824**	356,207
LIABILITIES			
Non-current liabilities			
Borrowings	35	**104,257**	87,437
Notes payable	36	**83,327**	51,298
Long-term payables	37	**3,577**	4,797
Other financial liabilities	38	**5,242**	3,306
Deferred income tax liabilities	28	**12,841**	10,964
Lease liabilities	2.2,18	**8,428**	–
Deferred revenue	5(c)(i)	**7,334**	7,077
		225,006	164,879

Consolidated Statement of Financial Position

As at 31 December 2019

		As at 31 December	
		2019	2018
	Note	**RMB'Million**	RMB'Million
Current liabilities			
Accounts payable	39	**80,690**	73,735
Other payables and accruals	40	**45,174**	33,312
Borrowings	35	**22,695**	26,834
Notes payable	36	**10,534**	13,720
Current income tax liabilities		**9,733**	10,210
Other tax liabilities		**1,245**	1,049
Other financial liabilities	38	**5,857**	1,200
Lease liabilities	2.2,18	**3,279**	–
Deferred revenue	5(c)(i)	**60,949**	42,375
		240,156	202,435
Total liabilities		**465,162**	367,314
Total equity and liabilities		**953,986**	723,521

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 136 to 264 were approved by the Board of Directors on 18 March 2020 and were signed on its behalf:

Ma Huateng
Director

Lau Chi Ping Martin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2019	–	27,294	(4,173)	729	299,660	323,510	32,697	356,207
Comprehensive income								
Profit for the year	–	–	–	–	93,310	93,310	2,578	95,888
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	126	–	126	(1)	125
– transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	–	–	–	(3)	–	(3)	–	(3)
– net gains from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	22,601	–	22,601	518	23,119
– currency translation differences	–	–	–	2,928	–	2,928	161	3,089
– other fair value losses, net	–	–	–	(2,292)	–	(2,292)	(25)	(2,317)
Total comprehensive income for the year	–	–	–	23,360	93,310	116,670	3,231	119,901
Transfer of gains on disposal and deemed disposal of financial assets at fair value through other comprehensive income to retained earnings	–	–	–	(720)	720	–	–	–
Share of other changes in net assets of associates	–	–	–	2,322	–	2,322	–	2,322
Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates	–	–	–	(149)	–	(149)	–	(149)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	273	273
Employee share option schemes:								
– value of employee services	–	2,041	–	62	–	2,103	63	2,166
– proceeds from shares issued	–	272	–	–	–	272	–	272
Employee share award schemes:								
– value of employee services	–	7,303	–	379	–	7,682	279	7,961
– shares withheld for share award schemes	–	–	(1,186)	–	–	(1,186)	–	(1,186)
– vesting of awarded shares	–	(1,357)	1,357	–	–	–	–	–
Repurchase and cancellation of shares	–	(1,046)	–	–	–	(1,046)	–	(1,046)
Tax benefit from share-based payments	–	–	–	529	–	529	–	529
Profit appropriations to statutory reserves	–	–	–	734	(734)	–	–	–
Dividends (Note 15)	–	–	–	–	(8,305)	(8,305)	(365)	(8,670)
Non-controlling interests arising from business combinations (Note 41)	–	–	–	–	–	–	18,386	18,386
Disposal of a subsidiary	–	–	–	–	–	–	(1)	(1)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	276	–	(534)	–	(258)	(844)	(1,102)
Dilution of interests in subsidiaries	–	–	–	(355)	–	(355)	394	39
Transfer of equity interests of subsidiaries to non-controlling interests	–	488	–	(4,849)	–	(4,361)	3,631	(730)
Recognition of financial liabilities in respect of the put option from business combination	–	–	–	(4,722)	–	(4,722)	(1,626)	(6,348)
Total transactions with equity holders at their capacity as equity holders for the year	–	7,977	171	(8,756)	(9,039)	(9,647)	20,190	10,543
Balance at 31 December 2019	–	35,271	(4,002)	16,786	384,651	432,706	56,118	488,824

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 31 December 2017, as previously reported	–	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093
Adjustment on adoption of IFRS 9	–	–	–	(16,210)	16,210	–	–	–
Balance at 1 January 2018	–	22,204	(3,970)	18,948	218,892	256,074	21,019	277,093
Comprehensive income								
Profit for the year	–	–	–	–	78,719	78,719	1,265	79,984
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	23	–	23	–	23
– net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	(16,095)	–	(16,095)	(296)	(16,391)
– currency translation differences	–	–	–	3,681	–	3,681	452	4,133
– other fair value gains, net	–	–	–	11	–	11	–	11
Total comprehensive income for the year	–	–	–	(12,380)	78,719	66,339	1,421	67,760
Transfer of gains on disposal of financial assets at fair value through other comprehensive income to retained earnings	–	–	–	(9,561)	9,561	–	–	–
Share of other changes in net assets of associates	–	–	–	2,861	–	2,861	–	2,861

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	140	140
Employee share option schemes:								
– value of employee services	–	1,983	–	63	–	2,046	57	2,103
– proceeds from shares issued	–	525	–	–	–	525	–	525
Employee share award schemes:								
– value of employee services	–	5,022	–	466	–	5,488	277	5,765
– shares withheld for share award schemes	–	–	(2,187)	–	–	(2,187)	–	(2,187)
– vesting of awarded shares	–	(1,984)	1,984	–	–	–	–	–
Repurchase and cancellation of shares	–	(783)	–	–	–	(783)	–	(783)
Tax benefit from share-based payments	–	–	–	148	–	148	–	148
Profit appropriations to statutory reserves	–	–	–	517	(517)	–	–	–
Dividends (Note 15)	–	–	–	–	(6,995)	(6,995)	(618)	(7,613)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	1,003	1,003
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	327	–	(877)	–	(550)	1,664	1,114
Partial disposal of subsidiaries	–	–	–	–	–	–	(31)	(31)
Dilution of interests in subsidiaries	–	–	–	2,836	–	2,836	5,879	8,715
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	–	(1,886)	–	(1,886)	1,886	–
Recognition of financial liabilities in respect of the put option from business combination	–	–	–	(406)	–	(406)	–	(406)
Total transactions with equity holders at their capacity as equity holders for the year	–	5,090	(203)	861	(7,512)	(1,764)	10,257	8,493
Balance at 31 December 2018	–	27,294	(4,173)	729	299,660	323,510	32,697	356,207

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'Million	2018 RMB'Million (Note 2.2)
Cash flows from operating activities			
Cash generated from operations	42(a)	**165,818**	125,457
Income tax paid		**(17,228)**	(14,521)
Net cash flows generated from operating activities		**148,590**	110,936
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		**(428)**	(3,206)
Net outflow of cash in respect of disposals and deemed disposals of subsidiaries		**–**	(201)
Purchase of property, plant and equipment, construction in progress and investment properties		**(22,766)**	(19,743)
Proceeds from disposals of property, plant and equipment		**4**	33
Purchase of/prepayment for intangible assets		**(29,866)**	(31,877)
Purchase of/prepayment for land use rights		**(4,356)**	(2,441)
Payments for acquisition of investments in associates		**(14,904)**	(37,776)
Proceeds from disposals of investments in associates		**667**	429
Payments for acquisition of investments in joint ventures		**(720)**	(2,352)
Payments for acquisition of financial assets at fair value through other comprehensive income		**(9,425)**	(17,669)
Proceeds from disposals of financial assets at fair value through other comprehensive income		**–**	22,224
Payments for acquisition of financial assets at fair value through profit or loss		**(39,827)**	(54,141)
Proceeds from disposals of financial assets at fair value through profit or loss		**15,744**	11,254
Payments for loans to investees and others		**(5,648)**	(2,523)
Loans repayments from investees and others		**618**	745
Payments for settlement of other financial liabilities		**(11,391)**	–
Proceeds from settlement of other financial assets		**1,222**	–
Receipt from maturity of term deposits with initial terms of over three months		**82,607**	46,227
Placement of term deposits with initial terms of over three months		**(85,601)**	(67,055)
Interest received		**6,230**	4,435
Dividends received		**1,670**	1,724
Net cash flows used in investing activities		**(116,170)**	(151,913)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	RMB'Million	RMB'Million
		(Note 2.2)
Cash flows from financing activities		
Proceeds from short-term borrowings	**18,375**	26,463
Repayments of short-term borrowings	**(22,058)**	(23,545)
Proceeds from long-term borrowings	**55,075**	7,237
Repayments of long-term borrowings	**(55,168)**	(194)
Net proceeds from issuance of notes payable	**40,202**	32,547
Repayments of notes payable	**(13,465)**	(4,666)
Principal elements of lease payments	**(2,400)**	–
Interest paid	**(7,047)**	(4,493)
Proceeds from issuance of ordinary shares as a result of exercise of share options	**272**	525
Shares withheld for share award schemes	**(1,406)**	(1,967)
Payments for repurchase of shares	**(1,046)**	(783)
Proceeds from issuance of additional equity of non-wholly owned subsidiaries	**440**	7,238
Proceeds from disposals of non-controlling interests in non-wholly owned subsidiaries	**–**	157
Payments for acquisition of non-controlling interests in non-wholly owned subsidiaries	**(649)**	(236)
Dividends paid to the Company's shareholders	**(8,315)**	(6,776)
Dividends paid to non-controlling interests	**(1,138)**	(620)
Net cash flows generated from financing activities	**1,672**	30,887
Net increase/(decrease) in cash and cash equivalents	**34,092**	(10,090)
Cash and cash equivalents at beginning of the year	**97,814**	105,697
Exchange gains on cash and cash equivalents	**1,085**	2,207
Cash and cash equivalents at end of the year	**132,991**	97,814

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of Value-added Services ("VAS"), FinTech and Business Services and Online Advertising services.

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

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

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

- the right to receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;

- the right to ensure that Tencent Technology owns the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer; and

- the right to control the management, financial and operating policies of Tencent Computer.

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.3(a) and Note 47) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

1 GENERAL INFORMATION (continued)

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 47.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("FVPL"), financial assets at fair value through other comprehensive income ("FVOCI"), certain other financial liabilities and derivative financial instruments, which are carried at fair value.

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

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2019:

IFRS 16	Leases
IFRS 9 (amendment)	Prepayment Features with Negative Compensation
IAS 28 (amendment)	Long-term Interests in Associates and Joint Ventures
IAS 19 (amendment)	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments

The Group has changed its accounting policies following the adoption of IFRS 16 since 1 January 2019. In accordance with the transitional provision under IFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated, details of which are disclosed in Note 2.2. Except IFRS 16, the adoption of these new and amended standards does not have significant impact on the consolidated financial statements of the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations issued but not yet effective

The following new standards and interpretations have not come into effect for the financial year beginning 1 January 2019 and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 28 and IFRS 10	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020
Amendments to IFRS 3	Definition of a business	1 January 2020
Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance contracts	1 January 2021

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 "Leases" on the Group's consolidated financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019. In accordance with the transitional provision under IFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated. The new accounting policies are disclosed in Note 2.34.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.58%.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

	RMB'Million
Operating lease commitments disclosed as at 31 December 2018	**12,294**
Discounted using the Group's weighted average incremental borrowing rate of 4.58%	**10,684**
Less: short-term leases recognised on a straight-line basis as expense	**(189)**
Less: leases contracted at the end of 2018 with leasing period started from 2019	**(540)**
Lease liabilities recognised as at 1 January 2019	**9,955**

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

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

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

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

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

Since the first quarter of 2019, the Group has reclassified interest paid in cash flow presentation from operating activities to financing activities, which better reflects the nature of business. Comparative figures have been reclassified to conform with the current period presentation.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries

(a) Consolidation

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

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

(i) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Business combinations (continued)

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

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

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

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

(iii) Disposal of subsidiaries

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 47(e)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust", and will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition of the Company's shares.

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

2.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include underlying goodwill identified on acquisition, net of any accumulated impairment loss.

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

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method, including investments in associates and joint arrangements (Note 2.5), are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other gains/(losses), net" in the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.4 Associates (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.5 Joint arrangements

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

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

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.6 Investments in associates/joint ventures achieved in stages

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.7 Disposal of associates

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

2.8 Segment reporting

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

2.9 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified as FVOCI, are included in other comprehensive income.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

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

2.10 Property, plant and equipment

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Property, plant and equipment (continued)

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15).

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

2.11 Investment properties

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Land use rights

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

2.13 Intangible assets

(a) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred plus acquisition-date fair value of the equity interests previously held by the Group and the non-controlling interests in the acquired entity over the fair value of the net identifiable assets of the acquiree.

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately under "Other gains/(losses), net" and is not subsequently reversed.

(b) Media contents

Media contents mainly include game licenses, video and music contents, and literature copyrights. They are initially recognised and measured at cost or estimated fair value as acquired through business combinations. Media contents are amortised using a straight-line method or an accelerated method which reflects the estimated consumption patterns.

(c) Other intangible assets

Other intangible assets mainly include trademarks, other copyrights, computer software and technology, non-compete agreements and land with indefinite useful life. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Land with indefinite useful life is not subject to amortisation and impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impact. Other intangible assets are amortised over their estimated useful lives (generally one to ten years) using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.14 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 47(e)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and the amount is deducted from total equity.

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

2.15 Impairment of non-financial assets

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

2.16 Investments and other financial assets

(a) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Initial recognition and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt investment measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest rate method.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net" in the consolidated income statement. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in "finance costs, net" and impairment losses or reversals are presented in "Other gains/(losses), net".

- FVPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "Other gains/(losses), net" for the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Equity instruments

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group's management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they meet the definition of equity instrument under IAS 32 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made an irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as "Other gains/(losses), net" when the Group's right to receive payments is established. Equity instruments designated as FVOCI are not subject to impairment assessment.

FVPL include financial assets designated upon initial recognition at fair value through profit or loss and financial assets that do not meet the criteria for amortised cost or FVOCI. Changes in the fair value of FVPL are recognised in "Other gains/(losses), net" in the consolidated income statement.

(b) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, which are recognised under "other financial assets" and "other financial liabilities" in the consolidated financial statements, respectively. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). The Group documents at the inception of the hedging relationship the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the hedge effectiveness requirements under IFRS 9. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through other comprehensive income within equity, while any ineffective portion is recognised immediately in profit or loss, within "Other gains/(losses), net".

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within other comprehensive income in the costs of hedging reserve within equity.

Amounts accumulated in equity are accounted for, depending on the nature of the underlying hedged transaction, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, the amounts accumulated in equity are removed from other reserves and included within the initial cost of the asset. These deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.

- For any other cash flow hedges, the gain or loss relating to the effective portion of the derivatives is reclassified to profit or loss at the same time when the hedged cash flows affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging included in equity are immediately reclassified to profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.18 Offsetting financial instruments

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

2.19 Inventories

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

2.20 Accounts receivable

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

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

2.21 Cash and cash equivalents and restricted cash

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

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

2.22 Share capital

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.23 Accounts payable

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

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

2.24 Put option arrangements

Put options are financial instruments granted by the Group which permit the holders to put back to the Group their shares in certain subsidiaries for cash or other financial assets ("OFA") when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or OFA under the put option, a financial liability is initially recognised under "other financial liabilities" in the consolidated financial statements at the present value of the estimated future cash outflows on exercise under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount based on the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustment will be recognised as "Other gains/(losses), net" in the consolidated income statement. In the event that the put option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The put option liabilities are current liabilities unless the put option first becomes exercisable 12 months after the end of the reporting period.

2.25 Financial guarantee contracts

The financial guarantee contracts are initially recognised as a financial liability at fair value on the date the guarantee is given. The liability is subsequently measured at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of the investees are provided for no compensation, the fair value is accounted for as contributions and recognised as part of the cost of the investment.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Borrowings, notes payable and borrowing costs

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

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

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

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

General and specific finance costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year ended 31 December 2019, finance cost capitalised was insignificant to the Group.

2.27 Current and deferred income tax

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Current and deferred income tax (continued)

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and tax losses.

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

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

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

2.28 Employee benefits

(a) Employee leave entitlements

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Employee benefits (continued)

(b) Pension obligations

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

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services and other qualifying participants' services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, 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 the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation techniques to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

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

From the perspective of the Company, the grants of its equity instruments to employees of its subsidiaries are made 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 the Company's statement of financial position.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Employee benefits (continued)

(c) Share-based compensation benefits (continued)

At each reporting period end, the Group revises the estimates of the number of options and awarded shares that are expected to ultimately vest. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement of the Group, with a corresponding adjustment 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 the Group repurchases vested equity instruments, the payments 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 the Group to settle the transaction in cash. Upon the vesting conditions, if any, are met, the Group shall account for that transaction as a cash-settled share-based payment transaction if, and to the extent that, the Group has 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. The Group adopts valuation technique to assess the fair value of such equity instruments granted under the share-based compensation plans as appropriate.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 Provisions

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

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

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

2.30 Revenue recognition

The Group generates 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.

(a) 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. The Group offers virtual products/items to users on the Group's online platforms. The VAS fees are paid directly by end users mainly via online payment channels.

Revenue from VAS is recognised when the Group satisfies its performance obligations by rendering services. Giving there is an explicit or implicit obligation of the Group to maintain the virtual products/items operated on the Group's 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.30 Revenue recognition (continued)

(a) VAS (continued)

Where the contracts include multiple performance obligations, the Group allocates 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 the Group's VAS services directly delivered to the Group's customers and paid through various third-party platforms, these third-party platforms collect the relevant service fees (the "Online Service Fees") on behalf of the Group and they are entitled to a pre-determined percentage of 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 the Group. The Group recognises 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 stated in (e) below, and recognises such Channel and distribution costs as cost of revenues.

The Group also opens its online platforms to third-party game/application developers under certain co-operation agreements, of which the Group pays to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of the Group's online platforms for the virtual products/items purchased. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

(b) 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, wealth management 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 the Group satisfies its performance obligations 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, the Group allocates 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.30 Revenue recognition (continued)

(c) 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 ads for an agreed period of time, and performance-based advertising.

Revenue from display-based advertising are 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 are recognised when relevant specific performance measures are fulfilled. Where the contracts include multiple performance obligations, the Group allocates 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.

(d) Other revenues

The Group's 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. The Group recognises other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

(e) Principal agent consideration

The Group reports the revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.30 Revenue recognition (continued)

(f) Contract liabilities and contract costs

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise of unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the inception dates, and customer loyalty incentives offered to the customers (Note 5(c)).

Contract costs include incremental costs of obtaining a contract and costs to fulfil a contract with the customers. The contract costs are amortised using a method which is consistent with the pattern of recognition of the respective revenues.

(g) Practical expedients and exemptions

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less. The unsatisfied performance obligation related to cooperation agreements with certain investees have been included in deferred revenue.

2.31 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "Interest income" where it is mainly earned from financial assets that are held for cash management purposes.

2.32 Dividend income

Dividends are received from FVPL and FVOCI. Dividends are recognised in "Other gains/(losses), net" in the consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.33 Government grants/subsidies

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

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

2.34 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

The Group leases land use rights (Note 2.12), various buildings, computer equipment and others. Rental contracts are typically made for fixed periods of no longer than 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Prior to 1 January 2019, leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Upon initial adoption of IFRS 16 from 1 January 2019, a lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. A right-of-use asset arising from land lease is presented as "land use rights".

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.34 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.34 Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

A right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, the differences arisen on settlement of the liabilities and the amortisation of the right-of-use assets, there will be a net temporary difference on which deferred tax is recognised.

2.35 Dividends distribution

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

2.36 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures by using foreign currency forwards.

During the year ended 31 December 2019, the Group 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 the Group's policy the critical terms of the forwards must align with the hedged items.

The Group only designates 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 the Group's consolidated financial statements.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2019, the Group's major monetary assets and liabilities exposed to foreign exchange risk are listed below:

	USD denominated RMB'Million	Non-USD denominated RMB'Million
As at 31 December 2019		
Monetary assets, current	**27,728**	**2,899**
Monetary assets, non-current	**373**	**–**
Monetary liabilities, current	**(4,273)**	**(14,732)**
Monetary liabilities, non-current	**(91)**	**(5,739)**
	23,737	**(17,572)**
As at 31 December 2018		
Monetary assets, current	18,041	1,994
Monetary assets, non-current	2,642	–
Monetary liabilities, current	(3,434)	(4,587)
Monetary liabilities, non-current	(3,733)	(9,430)
	13,516	(12,023)

During the year ended 31 December 2019, the Group reported exchange gains of approximately RMB77 million (2018: RMB229 million) within "Finance costs, net" in the consolidated income statement.

As at 31 December 2019, management considers that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency are considered to be not significant, given the exchange rate peg between HKD and USD. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Price risk

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified either as FVPL (Note 24) or FVOCI (Note 25). To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group's liquidity level simultaneously. Each investment is managed by senior management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL and FVOCI at the end of each reporting period. If prices of the respective instruments held by the Group had been 5% (31 December 2018: 5%) higher/lower as at 31 December 2019, profit for the year would have been approximately RMB6,611 million higher/lower as a result of gains/losses on financial instruments classified as at FVPL (2018: RMB4,794 million), other comprehensive income would have been approximately RMB4,018 million higher/lower as a result of gains/losses on financial instruments classified as at FVOCI (2018: RMB2,147 million).

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent from changes in market interest rates and the Group has no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents, details of which have been disclosed in Notes 26, 29 and 31.

The Group's exposure to changes in interest rates is also attributable to its borrowings and notes payable, details of which have been disclosed in Notes 35 and 36, representing a substantial portion of the Group's debts. Borrowings and notes payable carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

During the year ended 31 December 2019, the Group entered into certain interest rate swap contracts to hedge its exposure arising from borrowings carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings from floating rates to fixed rates and were qualified for hedge accounting. Details of the Group's outstanding interest rate swap contracts as at 31 December 2019 have been disclosed in Note 38.

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

	2019	2018
	RMB'Million	RMB'Million
Interest rate swaps		
Carrying amount (non-current (liabilities)/assets)	**(494)**	1,663
Notional amount	**29,423**	77,630
Maturity date	**30/7/2021~ 11/4/2024**	28/6/2019~ 8/12/2023
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments since 1 January	**(2,139)**	181
Change in value of hedged item used to determine hedge effectiveness	**(2,139)**	181
Weighted average hedged rate for the year	**2.10%**	1.60%

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Swaps currently in place cover majority of the floating-rate borrowing and notes payable principal outstanding.

As at 31 December 2019 and 2018, management considered that any reasonable changes in the interest rates would not result in a significant change in the Group's results as the Group's exposure to cash flow interest-rate risk arising from its borrowings and notes payable carried at floating rates after considering the effect of hedging is considered to be insignificant. Accordingly, no sensitivity analysis is presented for interest rate risk.

(b) Credit risk

The Group is exposed to credit risk in relation to its 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 the Group's 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, the Group has 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 its counterparties. The credit periods granted to these customers are disclosed in Note 30 and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors. The Group has 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group considers 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, the Group compares 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, the Group only makes 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

The Group applies 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Credit risk of accounts receivable (continued)

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 the Group, 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

Management considers the credit risk of other receivables is insignificant when they have a low risk of default and the issuer 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.

(c) Liquidity risk

The Group aims 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, the Group maintains flexibility in funding by maintaining adequate balances of such.

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date (or the earliest date a financial liability may become payable in the absence of a fixed maturity date). The amounts disclosed in the table are the contractual undiscounted cash flows.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2019					
Non-derivatives:					
Notes payable	**13,727**	**3,047**	**32,866**	**73,466**	**123,106**
Long-term payables	**–**	**2,322**	**1,079**	**227**	**3,628**
Borrowings	**26,164**	**21,343**	**91,447**	**–**	**138,954**
Lease liabilities	**3,526**	**2,840**	**4,866**	**1,739**	**12,971**
Other financial liabilities	**5,745**	**1,680**	**2,363**	**–**	**9,788**
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	**104,218**	**–**	**–**	**–**	**104,218**
Derivatives:					
Other financial liabilities	**29**	**–**	**494**	**–**	**523**
	153,409	**31,232**	**133,115**	**75,432**	**393,188**
At 31 December 2018					
Non-derivatives:					
Notes payable	15,780	12,010	14,629	38,305	80,724
Long-term payables	–	3,113	1,018	343	4,474
Borrowings	30,402	21,309	72,626	–	124,337
Other financial liabilities	1,191	942	1,615	–	3,748
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	90,310	–	–	–	90,310
Derivatives:					
Other financial liabilities	9	–	31	–	40
	137,692	37,374	89,919	38,648	303,633

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Borrowings (Note 35)	**126,952**	114,271
Notes payable (Note 36)	**93,861**	65,018
Total debts	**220,813**	179,289
Adjusted EBITDA (Note)	**147,395**	118,273
Total debts/Adjusted EBITDA ratio	**1.50**	1.52

Note:

Adjusted EBITDA represents operating profit less interest income and other gains/(losses), net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, amortisation of intangible assets and equity-settled share-based compensation expenses.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
As at 31 December 2019				
FVPL	**14,766**	**5,091**	**116,079**	**135,936**
FVOCI	**74,707**	**–**	**7,014**	**81,721**
OFA	**–**	**375**	**–**	**375**
Other financial liabilities	**–**	**523**	**1,873**	**2,396**
As at 31 December 2018				
FVPL	10,875	5,009	81,993	97,877
FVOCI	41,578	–	1,941	43,519
OFA	–	2,032	–	2,032
Other financial liabilities	–	40	4,466	4,506

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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

Specific valuation techniques used to value financial instruments mainly include:

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

During the year ended 31 December 2019, there was 1 transfer between level 1 and 2 for recurring fair value measurements. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 for the years ended 31 December 2019 and 2018:

	Financial assets		Financial liabilities	
	2019	2018	**2019**	2018
	RMB'Million	RMB'Million	**RMB'Million**	RMB'Million
Opening balance – IAS 39		77,131		2,154
Adjustment on adoption of IFRS 9		22,976		–
Opening balance – IFRS 9	**83,934**	100,107	**4,466**	2,154
Additions	**39,116**	51,185	**75**	3,301
Business combination	**–**	–	**(977)**	–
Disposals/Settlements	**(6,714)**	(9,899)	**(1,193)**	–
Transfers	**(4,552)**	(93,151)	**–**	–
Changes in fair value recognised in other comprehensive income	**328**	261	**–**	–
Changes in fair value recognised in profit or loss*	**9,241**	30,485	**(463)**	(1,063)
Currency translation differences	**1,740**	4,946	**(35)**	74
Closing balance	**123,093**	83,934	**1,873**	4,466
* Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	**3,265**	6,861	**(463)**	(1,063)

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note:

Valuation processes inputs and relationships to fair value (Level 3)

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

The components of the level 3 instruments mainly include investments in unlisted companies classified as FVPL or FVOCI, and other financial liabilities. Other financial liabilities mainly include contingent consideration payable related to business combination of the Group. As these investments and instruments are not traded in an active market, majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgment, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other exposure, etc.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of investments in unlisted companies.

Description	**Fair value as at 31 December**		**Significant unobservable inputs**	**Range of inputs at 31 December**		**Relationship of unobservable inputs to fair value**
	2019	2018		**2019**	2018	
	RMB'Million	RMB'Million				
Investments in unlisted companies in FVPL and FVOCI	**118,775**	80,175	Expected volatility	**36% ~ 83%**	28% ~ 76%	The higher the expected volatility, the lower the fair value
Contingent consideration related to business combination	**1,873**	3,145	Growth rate of net profit	**35%**	50%	The higher the growth rate, the higher the fair value
			Expected volatility	**25%**	15%	The higher the expected volatility, the lower the fair value

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note: (continued)

For the fair value of the Group's investments in unlisted companies, the sensitivity analysis is performed by management, see Note 3.1(a)(ii) for details.

For the fair value of contingent consideration related to business combination, if growth rate of net profit had been 5% higher or lower as at 31 December 2019, the fair value would have increased approximately RMB65 million (2018: RMB150 million) or decreased approximately RMB66 million (2018: RMB171 million). If the expected volatility had been 5% higher or lower as at 31 December 2019, the fair value would have decreased approximately RMB34 million (2018: RMB90 million) or increased approximately RMB25 million (2018: RMB92 million).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

As mentioned in Note 2.30(a), the end users purchase certain virtual products/items provided on the Group's online platforms and the relevant revenue is recognised based on the estimated lifespans of the virtual products/items. The estimated lifespans of different virtual products/items are determined by the management based on either the expected users' relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective terms of virtual products/items.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Recoverability of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property, plant and equipment, construction in progress, other intangible assets, investment properties, land use rights, 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 the Group's 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 the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statement.

(c) Fair value measurement of 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.

(d) Share-based compensation arrangements

As mentioned in Note 2.28(c), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the Binomial Model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Binomial Model (Note 34).

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD3,250 million (equivalent to approximately RMB2,785 million) in 2019 (2018: HKD3,533 million (equivalent to approximately RMB2,868 million)).

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2019, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be 95%-97% (31 December 2018: 88%-97%).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(e) Income taxes

The Group is 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.

5 SEGMENT INFORMATION AND REVENUES

(a) Description of segments and principal activities

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

In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand the Group's revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards, both in the internal reports to the chief operating decision makers and in the consolidated financial statements of the Group. The new "FinTech and Business Services" segment primarily consists of: (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 the consolidated income statement and the note have been restated to conform with the new presentation. The Board believes that the above changes in segment information better reflect current market trends, as well as resource allocation and future business development of the Group.

The Group has the following reportable segments for the years ended 31 December 2019 and 2018:

– VAS;

– FinTech and Business Services;

– Online Advertising; and

– Others.

Subsequent to the change, the "Others" business segment now 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.

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

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

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

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

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

	Year ended 31 December 2019				
	VAS RMB'Million	FinTech and Business Services RMB'Million	Online Advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	199,991	101,355	68,377	7,566	377,289
Gross profit	105,905	27,524	33,517	587	167,533
Depreciation	3,461	6,669	2,065	108	12,303
Amortisation	14,710	–	9,977	3,115	27,802

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

	Year ended 31 December 2018				
	VAS RMB'Million	FinTech and Business Services RMB'Million (Restated)	Online Advertising RMB'Million	Others RMB'Million (Restated)	Total RMB'Million
Segment revenues	176,646	73,138	58,079	4,831	312,694
Gross profit	102,685	18,540	20,806	89	142,120
Depreciation	1,996	3,514	1,376	144	7,030
Amortisation	11,663	–	12,462	573	24,698

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

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. During the years ended 31 December 2019 and 2018, breakdown of the total revenues by geographical location is as follows:

	2019 **RMB'Million**	2018 RMB'Million
Revenues		
– Mainland China	**360,562**	303,657
– Others	**16,727**	9,037
	377,289	312,694

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The Group also conducts operations in the United States of America ("United States"), Europe and other regions, and holds investments (including investments in associates, investments in joint ventures, FVPL and FVOCI) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Operating assets		
– Mainland China	**345,721**	270,373
– Others	**168,714**	83,962
Investments		
– Mainland China and Hong Kong	**289,491**	254,992
– North America	**76,488**	44,835
– Europe	**29,707**	37,451
– Asia excluding Mainland China and Hong Kong	**40,139**	30,148
– Others	**3,726**	1,760
	953,986	723,521

As at 31 December 2019, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China and other regions amounted to RMB311,386 million (31 December 2018: RMB282,774 million) and RMB136,338 million (31 December 2018: RMB65,057 million), respectively.

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the years ended 31 December 2019 and 2018.

5 SEGMENT INFORMATION AND REVENUES (continued)

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue of the Group from contracts with customers is disaggregated by revenue source. The table also includes a reconciliation to the segment information (Note 5(a)).

	2019	2018
	RMB'Million	RMB'Million
Revenue from contracts with customers		
– VAS	**199,991**	176,646
Online games	**114,710**	103,992
Social networks	**85,281**	72,654
– FinTech and Business Services	**101,355**	73,138
– Online Advertising	**68,377**	58,079
Media advertising	**15,480**	18,306
Social and others advertising	**52,897**	39,773
– Others	**7,566**	4,831
	377,289	312,694

(c) Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers under "Deferred revenue":

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Contract liabilities:		
VAS	**46,438**	31,787
Fintech and Business Services	**2,013**	931
Online advertising	**7,939**	9,145
Others	**137**	174
	56,527	42,037

5 SEGMENT INFORMATION AND REVENUES (continued)

(c) Assets and liabilities related to contracts with customers (continued)

Note:

(i) Contract liabilities

Contract liabilities mainly comprise of unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the relevant inception dates (Note 21), and customer loyalty incentives offered to the customers.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	2019	2018
	RMB'Million	RMB'Million
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
VAS	**31,787**	34,360
FinTech and Business Services	**923**	230
Online advertising	**3,045**	2,681
Others	**174**	2
	35,929	37,273

As at 31 December 2019, total capitalised costs to obtain or fulfill a contract with customer were immaterial.

6 INTEREST INCOME

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

7 OTHER GAINS, NET

	2019 RMB'Million	2018 RMB'Million
Net gains on disposals and deemed disposals of investee companies (Note (a))	**8,492**	2,932
Net fair value gains on FVPL (Note (b))	**9,511**	28,738
Subsidies and tax rebates	**4,263**	3,456
Impairment provision/(reversal) for investee companies and intangible assets arising from acquisitions (Note (c))	**(4,006)**	(17,577)
Net fair value gains on other financial instruments (Note 27 and Note 38)	**1,647**	1,019
Dividend income	**1,014**	686
Donations to Tencent Charity Funds	**(850)**	(730)
Others	**(382)**	(1,810)
	19,689	16,714

Note:

(a) The disposal and deemed disposal gains of approximately RMB8,492 million recognised during the year ended 31 December 2019 mainly comprised the following:

- net gains of approximately RMB4,859 million (2018: RMB1,661 million) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 21). These investee companies are principally engaged in Internet-related business; and
- aggregate net gains of approximately RMB3,633 million (2018: RMB1,271 million) on disposals, partial disposals or deemed disposals of various investments of the Group.

(b) Net fair value gains on FVPL of approximately RMB9,511 million (Note 24) recognised during the year ended 31 December 2019 mainly comprised the following:

- aggregate gains of approximately RMB1,886 million (2018: RMB22,215 million) arising from reclassification of several investments principally engaged in Internet-related business from FVPL to investments in associates due to the conversion of the Group's redeemable instruments or preferred shares of these investee companies into their ordinary shares and the Group has board representation upon their respective initial public offerings ("IPO"); and
- net gains of approximately RMB7,625 million (2018: RMB6,523 million) from fair value changes of FVPL.

(c) The impairment provision/(reversal) for investee companies and intangible assets arising from acquisitions mainly comprised the following:

	2019 RMB'Million	2018 RMB'Million
Investments in associates (Note 21)	**3,877**	14,069
Investments in joint ventures (Note 22)	**(54)**	2,328
Intangible assets arising from acquisitions	**183**	1,180
	4,006	17,577

8 EXPENSES BY NATURE

	2019	2018
	RMB'Million	RMB'Million
Transaction costs (Note (a))	**85,702**	69,976
Employee benefits expenses (Note (b) and Note 13)	**53,123**	42,153
Content costs (excluding amortisation of intangible assets)	**48,321**	39,061
Amortisation of intangible assets (Note (c) and Note 20)	**28,954**	25,616
Bandwidth and server custody fees (excluding depreciation of right-of-use assets)	**16,284**	15,818
Depreciation of property, plant and equipment, investment properties and right-of-use assets (Note 16 and Note 18)	**15,623**	8,423
Promotion and advertising expenses	**16,405**	19,806
Travelling and entertainment expenses	**1,773**	1,450
Auditor's remuneration		
– Audit and audit-related services	**105**	110
– Non-audit services	**43**	26

Note:

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

(b) During the year ended 31 December 2019, the Group incurred expenses for the purpose of research and development of approximately RMB30,387 million (2018: RMB22,936 million), which comprised employee benefits expenses of approximately RMB24,478 million (2018: RMB19,088 million).

During the year ended 31 December 2019, employee benefits expenses included the share-based compensation expenses of approximately RMB10,500 million (2018: RMB7,900 million).

No significant development expenses had been capitalised for the years ended 31 December 2019 and 2018.

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

During the year ended 31 December 2019, amortisation of intangible assets included the amortisation of intangible assets resulting from business combinations of approximately RMB1,051 million (2018: RMB524 million).

9 FINANCE COSTS, NET

	2019 RMB'Million	2018 RMB'Million
Interest and related expenses	**7,690**	4,898
Exchange gains	**(77)**	(229)
	7,613	4,669

Interest and related expenses mainly arose from the borrowings, notes payable and lease liabilities disclosed in Notes 35, 36 and 18, respectively.

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

	2019 RMB'Million	2018 RMB'Million
Share of (loss)/profit of associates (Note 21)	**(1,371)**	1,301
Share of (loss)/profit of joint ventures (Note 22)	**(310)**	186
	(1,681)	1,487

11 TAXATION

(a) Income tax expense

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

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

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

(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 2019 and 2018.

11 TAXATION (continued)

(a) Income tax expense (continued)

(iii) 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 Mainland China for the years ended 31 December 2019 and 2018. The general PRC CIT rate is 25% in 2019 and 2018.

Certain subsidiaries of the Group 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 2019 and 2018. Moreover, according to the 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 profits arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profit for the year at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

(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 the Group will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

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

11 TAXATION (continued)

(a) Income tax expense (continued)

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

	2019	2018
	RMB'Million	RMB'Million
Current income tax	**14,730**	15,091
Deferred income tax (Note 28)	**(1,218)**	(609)
	13,512	14,482

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year (2018: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2019	2018
	RMB'Million	RMB'Million
Profit before income tax	**109,400**	94,466
Share of loss/(profit) of associates and joint ventures, net	**1,681**	(1,487)
	111,081	92,979
Tax calculated at a tax rate of 25%	**27,770**	23,245
Effects of different tax rates applicable to different subsidiaries of the Group	**(17,236)**	(14,668)
Effects of tax holiday and preferential tax benefits on assessable profits of subsidiaries incorporated in Mainland China	**(3,584)**	(958)
Income not subject to tax	**(71)**	(43)
Expenses not deductible for tax purposes	**1,177**	1,434
Withholding tax on earnings expected to be remitted by subsidiaries (Note 28)	**2,650**	3,360
Unrecognised deferred income tax assets	**3,027**	2,378
Others	**(221)**	(266)
Income tax expense	**13,512**	14,482

11 TAXATION (continued)

(b) Value-added tax and other taxes

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

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

Note:

(i) Effective from 1 May 2018, the 17% and 11% VAT rates applicable to certain goods and services have been reduced to 16% and 10%, respectively, and such VAT rate have been further reduced to 13% and 9% since 1 April 2019, respectively.

(ii) Effective from 1 July 2019 to 31 December 2024, construction fee for cultural undertakings have been reduced by 50% in certain jurisdictions.

12 EARNINGS PER SHARE

(a) Basic

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

	2019	2018
Profit attributable to equity holders of the Company (RMB'Million)	**93,310**	78,719
Weighted average number of ordinary shares in issue (million shares)	**9,468**	9,444
Basic EPS (RMB per share)	**9.856**	8.336

12 EARNINGS PER SHARE (continued)

(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.

	2019	2018
Profit attributable to equity holders of the Company (RMB'Million)	**93,310**	78,719
Dilution effect arising from share-based awards issued by non-wholly owned subsidiaries and associates (RMB'Million)	**(708)**	–
Profit attributable to equity holders of the Company for the calculation of diluted EPS (RMB'Million)	**92,602**	78,719
Weighted average number of ordinary shares in issue (million shares)	**9,468**	9,444
Adjustments for share options and awarded shares (million shares)	**135**	124
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	**9,603**	9,568
Diluted EPS (RMB per share)	**9.643**	8.228

13 EMPLOYEE BENEFITS EXPENSES

	2019	2018
	RMB'Million	RMB'Million
Wages, salaries and bonuses	**35,782**	28,236
Contributions to pension plans (Note)	**3,001**	2,553
Share-based compensation expenses	**10,500**	7,900
Welfare, medical and other expenses (Note)	**3,725**	3,355
Training expenses	**115**	109
	53,123	42,153

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended 31 December 2019 and 2018 are listed below:

	Percentage
Pension insurance	12.0 ~ 20.0%
Medical insurance	5.2 ~ 10.5%
Unemployment insurance	0.32 ~ 1.5%
Housing fund	10.0 ~ 12.0%

13 EMPLOYEE BENEFITS EXPENSES (continued)

(a) Senior management's emoluments

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

	2019	2018
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**379,536**	329,721
Contributions to pension plans	**759**	874
Share-based compensation expenses	**2,219,669**	1,555,671
	2,599,964	1,886,266

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

	Number of individuals	
	2019	2018
Emolument bands		
HKD8,000,000 ~ HKD50,000,000	**1**	1
HKD50,000,001 ~ HKD200,000,000	**9**	9
HKD200,000,001 ~ HKD350,000,000	**–**	–
HKD350,000,001 ~ HKD700,000,000	**–**	2
HKD700,000,001 ~ HKD1,050,000,000	**2**	–

13 EMPLOYEE BENEFITS EXPENSES (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2019 (2018: one). All of these individuals including that one director (Note 14(a)) have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2019 and 2018. The emoluments paid/payable to the remaining four (2018: four) individuals during the year were as follows:

	2019	2018
	RMB'000	RMB'000
Salaries and bonuses	**514,296**	393,071
Contributions to pension plans	**4,565**	11,872
Share-based compensation expenses	**1,512,706**	968,642
Allowances and benefits in kind	**90**	84
	2,031,657	1,373,669

The emoluments of the above four individuals (2018: four) fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands		
HKD196,500,001 ~ HKD197,000,000	**–**	2
HKD221,000,001 ~ HKD221,500,000	**2**	–
HKD545,500,001 ~ HKD546,000,000	**–**	1
HKD628,000,001 ~ HKD628,500,000	**–**	1
HKD860,500,001 – HKD861,000,000	**1**	–
HKD964,500,001 – HKD965,000,000	**1**	–

14 BENEFITS AND INTERESTS OF DIRECTORS

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

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

During the year ended 31 December 2019:

Name of director	Fees RMB'000	Salaries and bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	1,256	45,256	91	–	22	46,625
Lau Chi Ping Martin	1,256	34,204	–	319,216	85	354,761
Iain Ferguson Bruce	985	–	–	3,761	–	4,746
Ian Charles Stone	985	–	–	4,572	–	5,557
Li Dong Sheng	717	–	–	2,285	–	3,002
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	896	–	–	3,447	–	4,343
Ke Yang (Note (iii))	716	–	–	306	–	1,022
	6,811	79,460	91	333,587	107	420,056

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

During the year ended 31 December 2018:

Name of director	Fees RMB'000	Salaries and bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	1,235	37,469	118	–	20	38,842
Lau Chi Ping Martin	1,235	28,214	–	283,899	125	313,473
Iain Ferguson Bruce	964	–	–	3,892	–	4,856
Ian Charles Stone	964	–	–	4,262	–	5,226
Li Dong Sheng	701	–	–	2,131	–	2,832
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	876	–	–	2,325	–	3,201
	5,975	65,683	118	296,509	145	368,430

Note:

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

(ii) During the year ended 31 December 2019, 3,506,580 options were granted to one executive director of the Company (2018: 3,215,800 options were granted to one executive director of the Company), and 59,484 awarded shares were granted to five independent non-executive directors of the Company (2018: 39,500 awarded shares were granted to four independent non-executive directors of the Company).

(iii) Ke Yang has been appointed as an Independent Non-Executive Director and a member of the Corporate Governance Committee with effect from 15 August 2019.

(iv) No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2019 and 2018.

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) Directors' termination benefits

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

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

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

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

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

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

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

15 DIVIDENDS

The dividends amounting to RMB8,305 million (final dividend for 2018: RMB6,776 million) were paid during the year ended 31 December 2019.

A special dividend of approximately HKD250 million (equivalent to approximately RMB219 million) was declared in December 2018 to the shareholders of the Company by way of a distribution in respect of the separate listing of Tencent Music Entertainment Group ("TME"), a non-wholly owned subsidiary of the Group on the New York Stock Exchange. Such dividend was settled by the Group with cash and shares of TME in February 2019.

A final dividend in respect of the year ended 31 December 2019 of HKD1.20 per share (2018: HKD1.00 per share) was proposed pursuant to a resolution passed by the Board on 18 March 2020 and subject to the approval of the shareholders at the 2020 annual general meeting of the Company to be held on 13 May 2020 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2019						
Cost	9,313	44,835	1,370	44	2,443	58,005
Accumulated depreciation and impairment	(1,677)	(19,297)	(808)	(26)	(1,241)	(23,049)
Currency translation differences	(1)	43	13	–	80	135
Net book amount	7,635	25,581	575	18	1,282	35,091
Year ended 31 December 2019						
Opening net book amount	7,635	25,581	575	18	1,282	35,091
Business combinations	–	74	2	–	38	114
Additions	3,509	19,623	463	13	509	24,117
Disposals	(9)	(16)	(7)	–	(5)	(37)
Depreciation	(897)	(11,113)	(205)	(7)	(322)	(12,544)
Currency translation differences	–	65	1	–	17	83
Closing net book amount	10,238	34,214	829	24	1,519	46,824
At 31 December 2019						
Cost	12,805	62,094	1,788	56	2,930	79,673
Accumulated depreciation and impairment	(2,566)	(27,988)	(973)	(32)	(1,508)	(33,067)
Currency translation differences	(1)	108	14	–	97	218
Net book amount	10,238	34,214	829	24	1,519	46,824

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2018						
Cost	8,852	28,504	1,136	41	2,090	40,623
Accumulated depreciation and impairment	(1,021)	(14,337)	(659)	(24)	(1,023)	(17,064)
Currency translation differences	–	(26)	16	–	48	38
Net book amount	7,831	14,141	493	17	1,115	23,597
Year ended 31 December 2018						
Opening net book amount	7,831	14,141	493	17	1,115	23,597
Business combinations	–	2	3	1	3	9
Additions	457	18,716	255	3	383	19,814
Disposals	(2)	(25)	(1)	–	(2)	(30)
Depreciation	(650)	(7,322)	(172)	(3)	(249)	(8,396)
Currency translation differences	(1)	69	(3)	–	32	97
Closing net book amount	7,635	25,581	575	18	1,282	35,091
At 31 December 2018						
Cost	9,313	44,835	1,370	44	2,443	58,005
Accumulated depreciation and impairment	(1,677)	(19,297)	(808)	(26)	(1,241)	(23,049)
Currency translation differences	(1)	43	13	–	80	135
Net book amount	7,635	25,581	575	18	1,282	35,091

During the year ended 31 December 2019, depreciation of RMB10,828 million (2018: RMB7,030 million), RMB203 million (2018: RMB153 million) and RMB1,513 million (2018: RMB1,213 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

17 LAND USE RIGHTS

	2019 RMB'Million	2018 RMB'Million
Opening net book amount	**7,106**	5,111
Additions	**8,714**	2,348
Amortisation	**(211)**	(353)
Closing net book amount	**15,609**	7,106

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 30 to 55 years.

18 LEASES (EXCLUDING LAND USE RIGHTS)

(a) Amounts recognised in the consolidated statement of financial position

Except recognition of lease liabilities, the carrying amounts of right-of-use assets (excluding land use rights, disclosed in Note 17), are as below:

	Buildings RMB'Million	Computer equipment RMB'Million	Others RMB'Million	Total RMB'Million
Net book amount as at 1 January 2019 (Note 2.2)	**5,505**	**4,177**	**6**	**9,688**
Net book amount as at 31 December 2019	**5,574**	**5,253**	**20**	**10,847**

Additions to the right-of-use assets (excluding land use rights, disclosed in Note 17) during the year ended 31 December 2019 were RMB4,241 million.

18 LEASES (EXCLUDING LAND USE RIGHTS) (continued)

(b) Amounts recognised in consolidated income statement

The consolidated income statement shows the following amounts relating to leases (excluding the amortisation of land use rights, disclosed in Note 17):

	2019 RMB'Million
Depreciation charge of right-of-use assets	
Buildings	**1,543**
Computer equipment	**1,501**
Others	**5**
	3,049
Interest expense (included in finance costs, net)	**541**
Expense relating to short-term leases not included in lease liabilities (included in cost of revenues and expenses)	**1,344**
Expense relating to variable lease payments not included in lease liabilities (included in cost of revenues and expenses)	**2,783**

Some computer equipment contain variable lease payments. Variable payments are used for a variety of reasons, including managing cash outflows and minimising the fixed costs. Variable lease payments that depend on usage of bandwidth are recognised in profit or loss in the period in which the condition that triggers those payments occur. Variable lease payments relating to computer equipment leases during the year ended 31 December 2019 were considered to be insignificant.

The total cash outflow in financing activities for leases during the year ended 31 December 2019 was RMB2,882 million, including principal elements of lease payments of approximately RMB2,400 million and related interest paid of approximately RMB482 million, respectively.

19 CONSTRUCTION IN PROGRESS

	2019	2018
	RMB'Million	RMB'Million
Opening net book amount	**4,879**	3,163
Additions	**3,168**	2,809
Transfer to property, plant and equipment	**(4,111)**	(1,094)
Currency translation differences	**(1)**	1
Closing net book amount	**3,935**	4,879

As at 31 December 2019, construction in progress mainly comprised office buildings and data centres under construction located in the PRC.

20 INTANGIBLE ASSETS

	Goodwill RMB'Million	Computer software and technology RMB'Million	Media contents RMB'Million	Trademarks RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2019						
Cost	33,730	3,902	54,292	1,710	3,089	96,723
Accumulated amortisation and impairment	(1,348)	(2,060)	(35,040)	(482)	(1,445)	(40,375)
Currency translation differences	223	8	78	(1)	(6)	302
Net book amount	32,605	1,850	19,330	1,227	1,638	56,650
Year ended 31 December 2019						
Opening net book amount	32,605	1,850	19,330	1,227	1,638	56,650
Business combinations (Note 41)	60,326	145	7,143	6,793	845	75,252
Additions	–	502	25,870	33	169	26,574
Disposals	–	–	(1,049)	–	(11)	(1,060)
Amortisation	–	(470)	(27,758)	(223)	(503)	(28,954)
Impairment provision	(20)	(81)	(51)	(81)	(1)	(234)
Currency translation differences	545	10	55	10	12	632
Closing net book amount	93,456	1,956	23,540	7,759	2,149	128,860
At 31 December 2019						
Cost	94,056	4,553	78,911	8,535	4,049	190,104
Accumulated amortisation and impairment	(1,368)	(2,615)	(55,504)	(785)	(1,906)	(62,178)
Currency translation differences	768	18	133	9	6	934
Net book amount	93,456	1,956	23,540	7,759	2,149	128,860

20 INTANGIBLE ASSETS (continued)

	Goodwill RMB'Million	Computer software and technology RMB'Million	Media contents RMB'Million (Note)	Trademarks RMB'Million (Note)	Others RMB'Million (Note)	Total RMB'Million
At 1 January 2018						
Cost	24,143	2,947	36,477	709	3,413	67,689
Accumulated amortisation and impairment	(564)	(1,437)	(23,535)	(240)	(1,651)	(27,427)
Currency translation differences	29	(6)	(1)	(6)	(12)	4
Net book amount	23,608	1,504	12,941	463	1,750	40,266
Year ended 31 December 2018						
Opening net book amount	23,608	1,504	12,941	463	1,750	40,266
Business combinations	9,587	454	420	1,030	410	11,901
Additions	–	522	31,725	23	(38)	32,232
Disposals	–	–	(1,200)	(25)	(25)	(1,250)
Amortisation	–	(457)	(24,635)	(63)	(461)	(25,616)
Impairment provision	(784)	(187)	–	(206)	(4)	(1,181)
Currency translation differences	194	14	79	5	6	298
Closing net book amount	32,605	1,850	19,330	1,227	1,638	56,650
At 31 December 2018						
Cost	33,730	3,902	54,292	1,710	3,089	96,723
Accumulated amortisation and impairment	(1,348)	(2,060)	(35,040)	(482)	(1,445)	(40,375)
Currency translation differences	223	8	78	(1)	(6)	302
Net book amount	32,605	1,850	19,330	1,227	1,638	56,650

Note:

To better help investors understand the composition of the Group's intangible assets, trademarks are presented as a separate category instead of being grouped under "Others", while game licenses, video and music contents, copyrights and other online contents are brought together under the "Media contents" category. The comparative figures have been restated to conform with the new presentation.

During the year ended 31 December 2019, amortisation of RMB27,802 million (2018: RMB24,698 million) and RMB1,152 million (2018: RMB918 million) were charged to cost of revenues and general and administrative expenses, respectively.

20 INTANGIBLE ASSETS (continued)

During the year ended 31 December 2019, impairment losses of RMB183 million (2018: RMB1,181 million) on goodwill and other intangible assets were charged to the consolidated income statement under "Other gains/(losses), net", and RMB51 million (2018:Nil) were charged to "cost of revenues" resulting from revisions of financial/business outlook and changes in the market environment for the underlying business.

Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB86,489 million (31 December 2018: RMB25,672 million), FinTech and Business Services segment with RMB34 million (31 December 2018: Nil) and Others segment with RMB6,933 million (31 December 2018: RMB6,933 million). The Group carries out its impairment testing on goodwill by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts. For the purpose of goodwill impairment review, the recoverable amount of a CGU (or groups of CGUs) is the higher of its fair value less costs of disposal and its value in use.

The key assumptions used for the calculation of the recoverable amounts of the CGUs (or groups of CGUs) under impairment testing were as follows:

For goodwill attributable to the Group's businesses in online music, online literature, television series and film production, value in use using discounted cash flows was calculated, in most cases, based on five-year period to ten-year period financial projections plus a terminal value related to cash flows beyond the projection period extrapolated at an estimated terminal growth rate of generally not more than 5% (2018: not more than 5%). Pre-tax discount rates ranging from 13% to 25% (2018: 15% to 25%) were adopted, which reflected assessment of time value and specific risks relating to the industries that the Group operates in. Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. Key parameters applied in the financial projections for impairment review purpose also included revenue growth rates, on a compound annual basis, of not more than 18% (2018: not more than 27%).

For goodwill attributable to the Group's online game business within VAS segment, fair value less costs of disposal was determined based on ratios of EV (enterprise value) divided by EBITDA of several comparable public companies (range: 10-25x) (2018: range: 11-21x) multiplied by the EBITDA of the related CGU (or group of CGUs) and discounted for lack of marketability at a range of 10% to 20% (2018: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks.

As at 31 December 2019, management has not identified reasonably possible change in key assumptions that could cause carrying amounts of the CGU's (or groups of CGUs') to exceed the recoverable amount.

21 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	**141,350**	130,633
– Unlisted entities	**72,264**	88,582
	213,614	219,215

	2019	2018
	RMB'Million	RMB'Million
At beginning of the year	**219,215**	113,779
Additions (Note (a))	**14,077**	40,918
Transfers (Note (b))	**(18,948)**	71,593
Deemed disposal gains (Note 7(a))	**4,859**	1,661
Share of (loss)/profit of associates (Note 10)	**(1,371)**	1,301
Share of other comprehensive income of associates	**130**	24
Share of other changes in net assets of associates	**2,322**	2,861
Dividends	**(550)**	(908)
Disposals (Note (c))	**(3,555)**	(725)
Impairment provision, net (Note (d))	**(3,877)**	(14,069)
Currency translation differences	**1,312**	2,780
At end of the year	**213,614**	219,215

Note:

(a) During the year ended 31 December 2019, the Group acquired certain new associates and made additional investments in existing associates with an aggregate amount of approximately RMB14,077 million. These associates are principally engaged in transportation network, retail and other Internet-related business.

21 INVESTMENTS IN ASSOCIATES (continued)

Note: (continued)

(b) During the year ended 31 December 2019, transfers mainly comprised the following:

(i) investment in an associate of approximately RMB17,735 million, which held majority interests in a mobile game developer, was transferred to investment in a subsidiary (Note 41(a));

(ii) associates achieved in stages of an aggregate amount of approximately RMB6,127 million, which mainly included approximately RMB3,202 million transferred from FVPL due to the conversion of redeemable instruments or preferred shares into ordinary shares upon their IPOs, and approximately RMB2,874 million transferred from financial instruments due to acquiring board representatives or converting the convertible promissory note; and

(iii) associates of an aggregate amount of approximately RMB6,029 million were transferred to FVPL and approximately RMB1,311 million were transferred to FVOCI as a result of changes in nature of these investments.

(c) During the year ended 31 December 2019, a company listed in the PRC completed a substantial assets reorganisation pursuant to which it acquired the entire equity interest of an associate of the Group through a share swap. Upon completion of the aforesaid reorganisation, the Group's equity interest in that associate was exchanged for approximately 5% of the issued ordinary shares of the listed company valued at approximately RMB3,526 million. Since the Group has no board representative in the listed company and this investment is not held for trading, this investment was recognised as FVOCI.

(d) Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indications, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use.

In respect of the recoverable amount using value in use, the discounted cash flows calculations were based on cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rate, profit margins and discount rate. The pre-tax discount rates adopted range from 15% to 20%. In respect of the recoverable amount based on fair value less costs of disposal, except for those listed associates using their respective market prices, the fair value less costs of disposal was calculated using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

As a result, the Group made an aggregate impairment provision of RMB3,877 million (2018: RMB14,069 million) against the carrying amounts of certain investments in associates during the year ended 31 December 2019, which includes impairment loss of approximately RMB5,427 million recognised and approximately RMB1,550 million reversed. The impairment losses mainly resulted from revisions of financial/business outlook of the associates and changes in the market environment of the underlying business.

The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.

21 INVESTMENTS IN ASSOCIATES (continued)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of its stakes in the associates which are listed entities, are shown in aggregate as follows:

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	Profit/ (loss) from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive income/(loss) RMB'Million	Fair value of stakes in listed associates as at 31 December RMB'Million
2019							
Listed entities	**243,940**	**102,590**	**167,222**	**(4,462)**	**164**	**(4,298)**	**334,688**
Non-listed entities	**194,518**	**122,254**	**42,458**	**3,091**	**(34)**	**3,057**	
	438,458	**224,844**	**209,680**	**(1,371)**	**130**	**(1,241)**	
2018							
Listed entities	210,311	79,678	126,027	(3,337)	25	(3,312)	187,339
Non-listed entities	225,799	137,217	47,081	4,638	(1)	4,637	
	436,110	216,895	173,108	1,301	24	1,325	

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and an associate with shareholding over 50% (voting power is below 50%), with total carrying amounts of RMB145,971 million and RMB13,393 million as at 31 December 2019, respectively (31 December 2018: RMB149,175 million and RMB24,948 million, respectively). Management determined that it has significant influence thereon through the board representation or other arrangements made, and it has no control or joint control over such investees as the Group has no power to direct relevant activities due to other arrangements made. Consequently, these investments have been classified as associates.

21 INVESTMENTS IN ASSOCIATES (continued)

Particulars of a material associate of the Group, as determined by the directors, are set out below:

Name of entity	Place of incorporation	Number of shares held	Interest held indirectly	Principal activities/place of operation
Meituan Dianping	PRC	1,046,951,338	18.02%	eCommerce platform for services/the PRC

Except Meituan Dianping, the directors of the Company considered that there is no other individual investment which was determined as a material associate.

Set out below are the summarised financial information of Meituan Dianping extracted from its financial statements prepared under IFRS.

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Summarised consolidated financial statements		
Revenues	**97,529**	65,227
Profit/(loss) for the year	**2,236**	(115,493)
Other comprehensive income/(loss)	**683**	(7,803)
Total comprehensive income/(loss) for the year	**2,919**	(123,296)
Summarised consolidated balance sheet		
Current assets	**82,135**	73,150
Non-current assets	**49,878**	47,512
Current liabilities	**36,593**	31,825
Non-current liabilities	**3,366**	2,327
Total equity	**92,054**	86,510
Reconciliation to carrying amounts:		
Net assets	**92,054**	86,510
Group's share in %	**18.02%**	19.06%
Group's share in RMB	**16,588**	16,489
Goodwill and others	**33,083**	33,756
Carrying amount	**49,671**	50,245

21 INVESTMENTS IN ASSOCIATES (continued)

As at 31 December 2019, the carrying amount of the investment in Meituan Dianping relative to the Group's total assets is 5.21%, and the fair value of this investment which is a listed entity was RMB95,566 million.

There were no dividends or realised gain received from Meituan Dianping during the year ended 31 December 2019 and the unrealised gain mainly represents the Group's share of profit of Meituan Dianping.

There were no material contingent liabilities relating to the Group's interests in the associates.

Transactions with associates

During the year ended 31 December 2019, the Group had undertaken transactions relating to the provision of various services such as FinTech services, business services and online advertising to certain associates, which mainly engaged in various Internet businesses such as eCommerce, O2O platforms, FinTech services under, among others, certain business co-operation arrangements. The transactions with associates for the years ended 31 December 2019 and 2018 were considered not significant compared to total revenue in the consolidated financial statements.

22 INVESTMENTS IN JOINT VENTURES

As at 31 December 2019, the Group's investments in joint ventures of RMB8,280 million (31 December 2018: RMB8,575 million) mainly comprised investee companies that are principally a special purpose vehicle of which we have a majority stake therein for the investment in one of the telecommunication carriers in the PRC and other joint venture initiatives in new retail and entertainment-related business.

Share of loss amounting to RMB310 million was recognised during the year ended 31 December 2019 (2018: share of profit of RMB186 million) (Note 10).

During the year ended 31 December 2019, the Group reversed an aggregate impairment of RMB54 million (2018: impairment provision of RMB2,328 million) against the carrying amounts of the investments in joint ventures, based on the respective assessed recoverable amounts.

23 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2019, the financial instruments of the Group are analysed as follows:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Financial assets		
Financial assets at amortised cost:		
Deposits and other receivables (Note 26)	**12,512**	10,757
Term deposits (Note 29)	**65,911**	62,918
Accounts receivable (Note 30)	**35,839**	28,427
Cash and cash equivalents (Note 31(a))	**132,991**	97,814
Restricted cash (Note 31(b))	**2,180**	2,590
Financial assets at fair value:		
FVPL (Note 24)	**135,936**	97,877
FVOCI (Note 25)	**81,721**	43,519
OFA (Note 27)	**375**	2,032
	467,465	345,934
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings (Note 35)	**126,952**	114,271
Notes payable (Note 36)	**93,861**	65,018
Long-term payables (Note 37)	**3,577**	4,797
Other financial liabilities (Note 38)	**8,703**	–
Accounts payable (Note 39)	**80,690**	73,735
Lease liabilities (Note 18)	**11,707**	–
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 40)	**23,528**	16,841
Financial liabilities at fair value:		
Other financial liabilities (Note 38)	**2,396**	4,506
	351,414	279,168

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Included in non-current assets:		
Investments in listed entities		
– Japan	**3,571**	3,360
– United Kingdom	**2,525**	2,613
– United States	**1,636**	1,442
– Mainland China	**1,352**	537
– Sweden	**591**	539
– Hong Kong	**570**	398
– South Korea	**163**	234
	10,408	9,123
Investments in unlisted entities	**111,761**	78,234
Others	**6,653**	4,345
	128,822	91,702
Included in current assets:		
Investment in a listed entity	**15**	–
Treasury investments and others	**7,099**	6,175
	7,114	6,175
	135,936	97,877

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Movement of FVPL is analysed as follows:

	2019	2018
	RMB'Million	RMB'Million
At beginning of the year	**97,877**	–
Adjustment on adoption of IFRS 9	**–**	95,497
Additions (Note (a))	**44,618**	60,807
Transfers (Note (b))	**(1,421)**	(78,816)
Changes in fair value (Note 7(b))	**9,511**	28,738
Disposals (Note (c))	**(16,664)**	(14,805)
Currency translation differences	**2,015**	6,456
At end of the year	**135,936**	97,877

Note:

(a) During the year ended 31 December 2019, the Group's additions to FVPL mainly comprised the following:

(i) an investment in a retail company of approximately USD500 million (equivalent to approximately RMB3,550 million) to subscribe for approximately 21% of its equity interests in form of preferred shares, on an outstanding basis;

(ii) an additional investment in a real estate O2O platform in the PRC of approximately USD320 million (equivalent to approximately RMB2,258 million). As at 31 December 2019, the Group's equity interests in this investee company are approximately 9% on an outstanding basis; and

(iii) new investments and additional investments with an aggregate amount of approximately RMB38,810 million in listed and unlisted entities mainly operating in the United States, the PRC and other Asian countries. These companies are principally engaged in social networks, Internet platform, technology and other Internet-related business. None of the above investment was individually significant that triggers any disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time of inception.

(b) During the year ended 31 December 2019, except as described in Note 21(b), transfers also mainly comprised an equity investment designated as FVOCI due to the conversion of the redeemable instruments into ordinary shares amounting to RMB1,395 million upon its IPO.

(c) During the year ended 31 December 2019, the Group disposed of certain investments with an aggregate amount of RMB16,664 million, which are mainly engaged in the provision of Internet-related services.

(d) Management has assessed the level of influence that the Group exercises on certain FVPL with shareholding exceeding 20%. Since these investments are either held in form of redeemable instruments or interests in limited life partnership without significant influence, these investments have been classified as FVPL.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Equity investments in listed entities		
– United States	**59,449**	33,120
– Mainland China	**11,858**	5,365
– France	**2,691**	3,093
– Hong Kong	**460**	–
– United Kingdom	**249**	–
	74,707	41,578
Equity investments in unlisted entities	**7,014**	1,941
	81,721	43,519

Movement of FVOCI is analysed as follows:

	2019	2018
	RMB'Million	RMB'Million
At beginning of the year	**43,519**	–
Adjustment on adoption of IFRS 9	**–**	58,515
Additions (Note (a) and Note 21(c))	**13,768**	17,689
Transfers	**211**	3,577
Changes in fair value	**23,349**	(16,578)
Disposals	**(702)**	(22,200)
Currency translation differences	**1,576**	2,516
At end of the year	**81,721**	43,519

Note:

(a) During the year ended 31 December 2019, except as described in Note 21(c), the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB10,242 million in companies which are principally engaged in Internet-related business.

26 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media contents	**15,731**	13,652
Loans to investees and investees' shareholders (Note (a))	**937**	3,864
Prepayments for capital investments in investees	**587**	619
Running royalty fees for online games (Note (b))	**564**	99
Others	**5,623**	3,297
	23,442	21,531
Included in current assets:		
Running royalty fees for online games (Note (b))	**10,888**	5,230
Prepayments and prepaid expenses	**8,353**	7,532
Interest receivables	**2,774**	1,697
Lease deposits and other deposits	**1,107**	693
Dividend and other investment-related receivables	**1,034**	338
Refundable value-added tax	**629**	915
Loans to investees and investees' shareholders (Note (a))	**447**	225
Others	**2,608**	1,863
	27,840	18,493
	51,282	40,024

Note:

(a) As at 31 December 2019, the balances of loans to investees and investees' shareholders are mainly repayable within a period of one to five years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 12.0% per annum (31 December 2018: not higher than 12.0% per annum).

(b) Running royalty fees for online games comprised prepaid royalty fees, unamortised running royalty fees and deferred Online Service Fees.

As at 31 December 2019, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax) approximated their fair values. Deposits and other assets were neither past due nor impaired.

27 OTHER FINANCIAL ASSETS

As at 31 December 2019, the Group's current other financial assets comprised a derivative contract and call options held by the Group to acquire additional equity interests in an investee company of the Group.

28 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	**11,412**	7,216
– to be recovered within 12 months	**8,966**	8,539
	20,378	15,755
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(13,916)**	(9,834)
– to be recovered within 12 months	**(1,094)**	(1,130)
	(15,010)	(10,964)

28 DEFERRED INCOME TAXES (continued)

The movements of the deferred income tax assets/liabilities account were as follows:

	Deferred income tax assets RMB'Million	**Deferred income tax liabilities RMB'Million**	**Deferred income tax, net RMB'Million**
At 1 January 2019	**15,755**	**(10,964)**	**4,791**
Business combinations	**20**	**(2,967)**	**(2,947)**
Credited/(charged) to consolidated income statement (Note 11)	**4,455**	**(3,237)**	**1,218**
Withholding taxes paid	**–**	**2,545**	**2,545**
Credited/(charged) to consolidated statement of changes in equity	**108**	**(338)**	**(230)**
Currency translation differences	**40**	**(49)**	**(9)**
Set-off of deferred tax assets/liabilities	**(2,169)**	**2,169**	**–**
At 31 December 2019	**18,209**	**(12,841)**	**5,368**

	Deferred income tax assets RMB'Million	Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2018	9,793	(5,975)	3,818
Business combinations	62	(563)	(501)
Credited/(charged) to consolidated income statement (Note 11)	5,713	(5,104)	609
Withholding taxes paid	–	1,773	1,773
Credited to consolidated statement of changes in equity	170	17	187
Other additions	–	(986)	(986)
Currency translation differences	17	(126)	(109)
At 31 December 2018	15,755	(10,964)	4,791

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax assets before offsetting were as follows:

	Deferred income tax assets on temporary differences arising from				
	Accelerated amortisation of intangible assets RMB'Million	Tax losses RMB'Million (Note)	Accrued expenses RMB'Million	Share-based payments and others RMB'Million	Total RMB'Million
At 1 January 2019	**4,404**	**91**	**8,078**	**3,182**	**15,755**
Business combinations	**–**	**–**	**–**	**20**	**20**
Credited to consolidated income statement	**1,651**	**593**	**588**	**1,623**	**4,455**
Credited to consolidated statement of changes in equity	**–**	**–**	**–**	**108**	**108**
Currency translation differences	**–**	**–**	**–**	**40**	**40**
At 31 December 2019	**6,055**	**684**	**8,666**	**4,973**	**20,378**
At 1 January 2018	1,902	96	5,565	2,230	9,793
Business combinations	–	–	–	62	62
Credited/(charged) to consolidated income statement	2,502	(5)	2,513	703	5,713
Credited to consolidated statement of changes in equity	–	–	–	170	170
Currency translation differences	–	–	–	17	17
At 31 December 2018	4,404	91	8,078	3,182	15,755

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2019, the Group did not recognise deferred income tax assets of RMB1,889 million (31 December 2018: RMB1,351 million) in respect of cumulative tax losses amounting to RMB8,569 million (31 December 2018: RMB6,277 million). These tax losses will expire from 2020 to 2024.

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax liabilities before offsetting were as follows:

	Deferred income tax liabilities on temporary differences arising from						
	Intangible assets acquired in business combinations RMB'Million	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'Million	Change in fair value of FVPL and FVOCI RMB'Million	Deemed disposals of investees RMB'Million	Accelerated tax depreciation RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2019	**(892)**	**(5,668)**	**(1,299)**	**(919)**	**(1,634)**	**(552)**	**(10,964)**
Business combinations	**(2,958)**	**–**	**–**	**–**	**–**	**(9)**	**(2,967)**
Credited/(charged) to consolidated income statement	**223**	**(2,650)**	**(89)**	**33**	**(1,112)**	**358**	**(3,237)**
Withholding tax paid	**–**	**2,545**	**–**	**–**	**–**	**–**	**2,545**
Charged to consolidated statement of changes in equity	**–**	**–**	**(338)**	**–**	**–**	**–**	**(338)**
Currency translation differences	**–**	**(8)**	**(17)**	**–**	**–**	**(24)**	**(49)**
At 31 December 2019	**(3,627)**	**(5,781)**	**(1,743)**	**(886)**	**(2,746)**	**(227)**	**(15,010)**
At 1 January 2018	(506)	(4,075)	(151)	(779)	–	(464)	(5,975)
Business combinations	(563)	–	–	–	–	–	(563)
Credited/(charged) to consolidated income statement	178	(3,360)	(75)	(139)	(1,634)	(74)	(5,104)
Withholding tax paid	–	1,773	–	–	–	–	1,773
Credited to consolidated statement of changes in equity	–	–	17	–	–	–	17
Other additions	–	–	(986)	–	–	–	(986)
Currency translation differences	(1)	(6)	(104)	(1)	–	(14)	(126)
At 31 December 2018	(892)	(5,668)	(1,299)	(919)	(1,634)	(552)	(10,964)

As at 31 December 2019, the Group recognised the relevant deferred income tax liabilities of RMB5,781 million (31 December 2018: RMB5,668 million) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB21,139 million (31 December 2018: RMB13,685 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

29 TERM DEPOSITS

An analysis of the Group's term deposits by currencies are as follows:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	**19,000**	–
Included in current assets:		
RMB term deposits	**28,598**	55,180
USD term deposits	**16,325**	6,349
Other currencies	**1,988**	1,389
	46,911	62,918
	65,911	62,918

The effective interest rate for the term deposits of the Group with initial terms of over three months to three years during the year ended 31 December 2019 was 3.57% (2018: 4.08%).

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2019, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.

30 ACCOUNTS RECEIVABLE

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Accounts receivable from contracts with customers	**37,268**	29,784
Loss allowance	**(1,429)**	(1,357)
	35,839	28,427

30 ACCOUNTS RECEIVABLE (continued)

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

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
0 ~ 30 days	**15,582**	11,200
31 ~ 60 days	**10,222**	7,695
61 ~ 90 days	**5,035**	4,201
Over 90 days	**5,000**	5,331
	35,839	28,427

Majority of the Group's accounts receivable were denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Online advertising customers and agencies	**11,797**	11,944
FinTech and cloud customers	**10,208**	4,260
Content production related customers	**5,260**	5,400
Third party platform providers	**5,259**	3,877
Others	**3,315**	2,946
	35,839	28,427

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.

30 ACCOUNTS RECEIVABLE (continued)

Beginning from 1 January 2018, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The historical observed default rates are updated and changes in the forward-looking estimates are analysed at year end. For the year ended 31 December 2019 and 2018, information about the impairment of accounts receivable and the Group's exposure to credit risk and foreign currency risk can be found in Note 3.1.

As at 31 December 2019, the carrying amounts of accounts receivable approximated their fair values.

31 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Bank balances and cash	**60,907**	38,696
Term deposits and highly liquid investments with initial terms within three months	**72,084**	59,118
	132,991	97,814

The effective interest rate of the term deposits of the Group with initial terms within three months during the year ended 31 December 2019 was 3.29% (2018: 3.59%).

Approximately RMB62,963 million (31 December 2018: RMB31,015 million) and RMB805 million (31 December 2018: RMB3,349 million) of the total balance of the Group's cash and cash equivalents was denominated in RMB and placed with banks in Mainland China and Hong Kong, respectively.

(b) Restricted cash

As at 31 December 2019, restricted deposits held at bank of RMB2,180 million (31 December 2018: RMB2,590 million) were mainly denominated in RMB.

32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

As at 31 December 2019 and 2018, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

	Number of issued and fully paid ordinary shares*	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2019	**9,520,307,091**	**–**	**27,294**	**(4,173)**	**23,121**
Employee share option schemes:					
– value of employee services	**–**	**–**	**2,041**	**–**	**2,041**
– shares issued (Note (a))	**1,612,741**	**–**	**272**	**–**	**272**
Employee share award schemes:					
– value of employee services	**–**	**–**	**7,303**	**–**	**7,303**
– shares withheld for share award schemes (Note (b))	**–**	**–**	**–**	**(1,186)**	**(1,186)**
– shares allotted for share award schemes (Note (c))	**34,182,154**	**–**	**–**	**–**	**–**
– shares vested from share award schemes and transferred to the grantees (Note (d))	**–**	**–**	**(1,357)**	**1,357**	**–**
Repurchase and cancellation of shares (Note (e))	**(3,486,700)**	**–**	**(1,046)**	**–**	**(1,046)**
Acquisition of additional equity interests in non-wholly owned subsidiaries	**–**	**–**	**276**	**–**	**276**
Transfer of equity interests of subsidiaries to non-controlling interests	**–**	**–**	**488**	**–**	**488**
At 31 December 2019	**9,552,615,286**	**–**	**35,271**	**(4,002)**	**31,269**
At 1 January 2018	9,499,056,887	–	22,204	(3,970)	18,234
Employee share option schemes:					
– value of employee services	–	–	1,983	–	1,983
– shares issued (Note (a))	6,891,249	–	525	–	525
Employee share award schemes:					
– value of employee services	–	–	5,022	–	5,022
– shares withheld for share award schemes (Note (b))	–	–	–	(2,187)	(2,187)
– shares allotted for share award schemes (Note (c))	17,206,955	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(1,984)	1,984	–
Repurchase and cancellation of shares (Note (e))	(2,848,000)	–	(783)	–	(783)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	327	–	327
At 31 December 2018	9,520,307,091	–	27,294	(4,173)	23,121

32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

* As at 31 December 2019, the total number of issued ordinary shares of the Company included 77,967,786 shares (31 December 2018: 63,275,620 shares) held under the Share Award Schemes.

Note:

(a) During the year ended 31 December 2019, 1,612,741 Post-IPO options (2018: 6,891,249 Post-IPO options) with exercise prices ranging from HKD49.76 to HKD272.36 (2018: HKD31.70 to HKD272.36) were exercised.

(b) During the year ended 31 December 2019, the Share Scheme Trust withheld 4,047,457 ordinary shares (2018: 6,839,643 ordinary shares) of the Company for an amount of approximately HKD1,332 million (equivalent to approximately RMB1,186 million) (2018: HKD2,550 million (equivalent to approximately RMB2,187 million)), which had been deducted from the equity.

(c) During the year ended 31 December 2019, the Company allotted 34,182,154 ordinary shares (2018: 17,206,955 ordinary shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the Share Award Schemes.

(d) During the year ended 31 December 2019, the Share Scheme Trust transferred 23,537,445 ordinary shares of the Company (2018: 31,446,159 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 34(b)).

(e) During the year ended 31 December 2019, the Company repurchased 3,486,700 of its own shares from the market which were subsequently cancelled (2018: 2,848,000 shares). The shares were acquired at prices ranging from HKD312.40 to HKD351.00, with an average price of HKD332.90 per share (2018: ranging from HKD265.20 to HKD333.40, with an average price of HKD311.38 per share).

33 OTHER RESERVES

	Capital reserves RMB'Million (Note (a))	FVOCI RMB'Million	Investments in associates and joint ventures RMB'Million	Currency translation differences RMB'Million	PRC statutory reserves RMB'Million (Note (b))	Share-based compensation reserves RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 1 January 2019	(3,332)	(10,714)	5,112	217	2,790	4,847	1,809	729
Transfer of gains on disposal and deemed disposal of FVOCI to retained earnings (Note (d))	–	(720)	–	–	–	–	–	(720)
Share of other changes in net assets of associates	–	–	2,322	–	–	–	–	2,322
Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates	–	–	(149)	–	–	–	–	(149)
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	62	–	62
– Employee share award schemes	–	–	–	–	–	379	–	379
Tax benefit from share-based payments	–	–	–	–	–	529	–	529
Acquisition of additional equity interests in non-wholly owned subsidiaries	(534)	–	–	–	–	–	–	(534)
Transfer of equity interests of subsidiaries to non-controlling interests	(4,849)	–	–	–	–	–	–	(4,849)
Recognition of financial liabilities in respect of the put option from business combination	(4,722)	–	–	–	–	–	–	(4,722)
Dilution of interests in subsidiaries	(355)	–	–	–	–	–	–	(355)
Profit appropriations to statutory reserves	–	–	–	–	734	–	–	734
Net gains from changes in fair value of FVOCI	–	22,601	–	–	–	–	–	22,601
Share of other comprehensive income of associates and joint ventures	–	–	126	–	–	–	–	126
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	–	–	(3)	–	–	–	–	(3)
Currency translation differences	–	–	–	2,928	–	–	–	2,928
Other fair value losses, net	–	–	–	–	–	–	(2,292)	(2,292)
Balance at 31 December 2019	(13,792)	11,167	7,408	3,145	3,524	5,817	(483)	16,786

33 OTHER RESERVES (continued)

	Capital reserves RMB'Million (Note (a))	Available-for sale financial assets RMB'Million	FVOCI RMB'Million	Investments in associates and joint ventures RMB'Million	Currency translation differences RMB'Million	PRC statutory reserves RMB'Million (Note (b))	Share-based compensation reserves RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 31 December 2017, as previously reported	(2,999)	31,152	–	2,228	(3,464)	2,273	4,170	1,798	35,158
Adjustment on adoption of IFRS 9	–	(31,152)	14,942	–	–	–	–	–	(16,210)
Balance at 1 January 2018	(2,999)	–	14,942	2,228	(3,464)	2,273	4,170	1,798	18,948
Transfer of gains on disposal of FVOCI to retained earnings (Note (d))	–	–	(9,561)	–	–	–	–	–	(9,561)
Share of other changes in net assets of associates	–	–	–	2,861	–	–	–	–	2,861
Value of employee services:									
– Employee share option schemes	–	–	–	–	–	–	63	–	63
– Employee share award schemes	–	–	–	–	–	–	466	–	466
Tax benefit from share-based payments	–	–	–	–	–	–	148	–	148
Acquisition of additional equity interests in non-wholly owned subsidiaries	(877)	–	–	–	–	–	–	–	(877)
Transfer of equity interests of subsidiaries to non-controlling interests	(1,886)	–	–	–	–	–	–	–	(1,886)
Recognition of financial liabilities in respect of the put option from business combination	(406)	–	–	–	–	–	–	–	(406)
Dilution of interests in subsidiaries	2,836	–	–	–	–	–	–	–	2,836
Profit appropriations to statutory reserves	–	–	–	–	–	517	–	–	517
Net losses from changes in fair value of FVOCI	–	–	(16,095)	–	–	–	–	–	(16,095)
Share of other comprehensive income of associates and joint ventures	–	–	–	23	–	–	–	–	23
Currency translation differences	–	–	–	–	3,681	–	–	–	3,681
Other fair value gains, net	–	–	–	–	–	–	–	11	11
Balance at 31 December 2018	(3,332)	–	(10,714)	5,112	217	2,790	4,847	1,809	729

33 OTHER RESERVES (continued)

Note:

(a) The capital reserve mainly arises from transactions undertaken with non-controlling interests.

(b) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profit (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(c) Share-based compensation reserve arises from share option schemes and share award schemes adopted by the subsidiaries of the Group (Note 34(d)).

(d) The Group has elected to recognise changes in the fair value of certain investments in equity instruments in other comprehensive income. These changes are accumulated with FVOCI reserve with equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

34 SHARE-BASED PAYMENTS

(a) Share option schemes

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

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II 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 December 2019, 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 Rules Governing the Listing of Securities on the Stock Exchange. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 7-year period for the Post-IPO Option Scheme IV after the date of grant of option.

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2019	**HKD185.25**	**51,499,010**	**–**	**–**	**HKD374.52**	**36,277,234**	**87,776,244**
Granted	**–**	**–**	**–**	**–**	**HKD374.01**	**26,249,615**	**26,249,615**
Exercised	**HKD158.51**	**(1,138,985)**	**–**	**–**	**HKD272.36**	**(473,756)**	**(1,612,741)**
Lapsed/forfeited	**HKD148.90**	**(1,225)**	**–**	**–**	**HKD320.56**	**(314,900)**	**(316,125)**
At 31 December 2019	**HKD185.86**	**50,358,800**	**–**	**–**	**HKD375.36**	**61,738,193**	**112,096,993**
Exercisable as at 31 December 2019	**HKD172.30**	**33,855,872**	**–**	**–**	**HKD363.68**	**10,997,475**	**44,853,347**
At 1 January 2018	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
Granted	–	–	–	–	HKD405.73	27,723,850	27,723,850
Exercised	HKD110.85	(3,966,835)	HKD31.70	(2,500,000)	HKD272.36	(424,414)	(6,891,249)
Lapsed/forfeited	HKD136.67	(44,403)	–	–	HKD298.36	(178,062)	(222,465)
At 31 December 2018	HKD185.25	51,499,010	–	–	HKD374.52	36,277,234	87,776,244
Exercisable as at 31 December 2018	HKD160.50	22,419,156	–	–	HKD274.86	1,760,025	24,179,181

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options (continued)

During the year ended 31 December 2019, 3,506,580 options were granted to an executive director of the Company (2018: 3,215,800 options were granted to an executive director of the Company).

As a result of the options exercised during the year ended 31 December 2019, 1,612,741 ordinary shares (2018: 6,891,249 ordinary shares) were issued by the Company (Note 32). The weighted average price of the shares at the time these options were exercised was HKD339.07 per share (equivalent to approximately RMB301.04 per share) (2018: HKD399.37 per share (equivalent to approximately RMB325.67 per share)).

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2019 and 2018 are as follows:

		Number of share options	
Expiry Date	**Range of exercise price**	**31 December 2019**	31 December 2018
7 years commencing from the date of grant of options (Post-IPO Option Scheme II and Post-IPO Option Scheme IV)	HKD49.76	**–**	22,875
	HKD112.30~HKD174.86	**22,761,755**	23,504,535
	HKD225.44~HKD272.36	**35,450,183**	36,475,949
	HKD334.20~HKD386.60	**31,308,935**	5,191,480
	HKD403.16~HKD444.20	**22,576,120**	22,581,405
		112,096,993	87,776,244

The outstanding share options as of 31 December 2019 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from ten months to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company have used the Binomial Model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2019 was HKD123.82 per share (equivalent to approximately RMB106.09 per share) (2018: HKD127.43 per share (equivalent to approximately RMB103.46 per share)).

Other than the exercise price mentioned above, significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors in applying the Binomial Model, which are summarised as below.

	2019	2018
Weighted average share price at the grant date	**HKD373.33**	HKD405.00
Risk free rate	**1.08%~2.07%**	1.77%~2.27%
Dividend yield	**0.23%**	0.24%~0.25%
Expected volatility (Note)	**30.00%**	30.00%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

34 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted three share award schemes (the "Share Award Schemes") as of 31 December 2019, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the years ended 31 December 2019 and 2018 are as follows:

	Number of awarded shares	
	2019	2018
At beginning of the year	**50,247,895**	63,636,254
Granted	**53,096,782**	20,940,149
Lapsed/forfeited	**(3,191,477)**	(2,882,349)
Vested and transferred	**(23,537,445)**	(31,446,159)
At end of the year	**76,615,755**	50,247,895
Vested but not transferred as at the end of the year	**46,313**	45,432

During the year ended 31 December 2019, 59,484 awarded shares were granted to five independent non-executive directors of the Company (2018: 39,500 awarded shares were granted to four independent non-executive directors of the Company).

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2019 was HKD360.25 per share (equivalent to approximately RMB313.18 per share) (2018: HKD374.32 per share (equivalent to approximately RMB316.30 per share)).

The outstanding awarded shares as of 31 December 2019 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from four months to five years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

34 SHARE-BASED PAYMENTS (continued)

(c) Employee investment schemes

To align the interests of key employees with the Group, the Group established six employees' investment plans in the form of limited liability partnerships in 2011, 2014, 2015, 2016 and 2017 (the "EIS") respectively. The EIS in 2011 was terminated in 2019. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to all the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the years ended 31 December 2019 and 2018 were insignificant to the Group.

(d) Share options and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the respective board of directors of these subsidiaries at their sole discretion. The share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries ("Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that some of them would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method. In addition, Halti S.A. ("Halti"), the parent company of Supercell Oy ("Supercell"), provides a put arrangement to the participants of the share-based compensation plans operated by Supercell for cash, the share-based compensation plans of Supercell are accounted for as cash-settled share-based payment transactions in the consolidated financial statement.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2019, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be 95%~97% (31 December 2018: 88%~97%).

35 BORROWINGS

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	**88,354**	70,938
Non-current portion of long-term EUR bank borrowings, unsecured (Note (a))	**1,172**	–
Non-current portion of long-term RMB bank borrowings, unsecured (Note (a))	**10,196**	11,189
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	**4,535**	5,310
	104,257	87,437
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	**6,627**	16,403
HKD bank borrowings, unsecured (Note (b))	**9,298**	3,368
RMB bank borrowings, unsecured (Note (b))	**902**	628
RMB bank borrowings, secured (Note (b))	**201**	–
Current portion of long-term USD bank borrowings, unsecured (Note (a))	**140**	5,628
Current portion of long-term RMB bank borrowings,		
– unsecured (Note (a))	**4,633**	332
– secured (Note (a))	**–**	475
Current portion of long-term HKD bank borrowings, unsecured (Note (a))	**894**	–
	22,695	26,834
	126,952	114,271

35 BORROWINGS (continued)

Note:

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

	31 December 2019		31 December 2018	
	Amount (Million)	**Interest rate (per annum)**	Amount (Million)	Interest rate (per annum)
USD bank borrowings	**USD12,685**	**LIBOR + 0.70% ~ 1.27%**	USD11,156	LIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875%
EUR bank borrowings	**EUR150**	**0.52%**	–	–
HKD bank borrowings	**HKD6,070**	**HIBOR +0.70% ~ 0.80%**	HKD6,070	HIBOR + 0.70% ~ 0.85%
RMB bank borrowings	**RMB14,829**	**4.18% ~ 5.70%**	RMB11,996	4.18% ~ 9.00%

The long-term bank borrowings were repayable as follows:

	As at 31 December	
	2019 RMB'Million	2018 RMB'Million
Within 1 year	**5,667**	6,435
Between 1 and 2 years	**18,449**	18,640
Between 2 and 5 years	**85,808**	68,797
	109,924	93,872

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

	31 December 2019		31 December 2018	
	Amount (Million)	**Interest rate (per annum)**	Amount (Million)	Interest rate (per annum)
USD bank borrowings	**USD950**	**LIBOR + 0.5%**	USD2,390	LIBOR + 0.50% ~ 0.55%
HKD bank borrowings	**HKD10,395**	**HIBOR + 0.45% ~ 0.50%**	HKD3,850	HIBOR + 0.50% ~ 0.55%
RMB bank borrowings	**RMB1,103**	**3.60% ~ 5.22%**	RMB628	5.22% ~ 5.44%

During the year ended 31 December 2019, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2019 have been detailed in Note 38.

As at 31 December 2019, the carrying amounts of borrowings approximated their fair values.

36 NOTES PAYABLE

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	**83,327**	48,501
Non-current portion of long-term HKD notes payable	**–**	2,797
	83,327	51,298
Included in current liabilities:		
Current portion of long-term USD notes payable	**7,672**	13,720
Current portion of long-term HKD notes payable	**2,862**	–
	10,534	13,720
	93,861	65,018

The aggregate principal amounts of USD notes payable and HKD notes payable were USD13,100 million (2018: USD9,100 million) and HKD3,200 million (2018: HKD3,200 million), respectively. Applicable interest rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910% (2018: rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605%) per annum.

The notes payable were repayable as follows:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Within 1 year	**10,534**	13,720
Between 1 and 2 years	**–**	10,335
Between 2 and 5 years	**24,335**	10,258
More than 5 years	**58,992**	30,705
	93,861	65,018

36 NOTES PAYABLE (continued)

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

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

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

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

During the year ended 31 December 2019, the notes payable with an aggregate principal amount of USD2,000 million issued in April 2014 reached their maturity and were repaid in full by the Group.

As at 31 December 2019, the fair value of the notes payable amounted to RMB98,668 million (31 December 2018: RMB62,820 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.

37 LONG-TERM PAYABLES

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Payables relating to media contents and running royalty fee for online games	**1,281**	1,415
Cash-settled share-based compensation payables (Note 34(d))	**980**	–
Purchase consideration payables for investee companies	**298**	2,018
Others	**1,018**	1,364
	3,577	4,797

38 OTHER FINANCIAL LIABILITIES

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Measured at amortised cost:		
Redemption liability (Note (a))	**8,703**	–
Measured at fair value:		
Contingent consideration (Note (b))	**1,873**	3,302
Financial guarantee contracts (Note 41(a))	**–**	1,164
Interest rate swap (Note (c))	**494**	30
Others	**29**	10
	11,099	4,506

Note:

(a) It mainly comprised redemption liability arising from put option arrangement with non-controlling shareholders of an acquired subsidiary of approximately RMB7,452 million (Note 41(a)).

(b) It mainly comprised the contingent consideration in relation to the acquisition of equity interests from shareholders of a previously associate of the Group.

(c) The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts were USD4,025 million and HKD1,500 million (equivalent to approximately RMB29,423 million) (31 December 2018: USD11,311 million (equivalent to approximately RMB77,630 million)).

39 ACCOUNTS PAYABLE

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

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
		(Note)
0 ~ 30 days	**67,054**	63,615
31 ~ 60 days	**2,975**	1,832
61 ~ 90 days	**1,442**	1,149
Over 90 days	**9,219**	7,139
	80,690	73,735

Note:

To help investors better understand the Group's financial position, ageing analysis of accounts payable has been changed from recognition date to invoice date and the amounts of accrual payables were categorised within 30 days. The comparative figures have been restated to conform with the new presentation.

40 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Staff costs and welfare accruals	**20,110**	15,929
Purchase of land use rights and construction related costs	**5,622**	1,065
Selling and marketing expense accruals	**4,772**	3,038
General and administrative expenses accruals	**1,932**	1,650
Purchase consideration payables for investee companies	**1,979**	1,277
Interests payable	**1,245**	951
Prepayments received from customers and others	**1,536**	542
Others (Note)	**7,978**	8,860
	45,174	33,312

Note:

Others primary consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.

41 BUSINESS COMBINATION

(a) The acquisition of additional equity voting interest in an associate holding a majority interest in Supercell

On 21 October 2019 (the "Acquisition Date"), the Group acquired additional 44,000 ordinary voting shares in an associate, Halti, by converting the entire principal outstanding and relevant interest under the USD40 million convertible bond issued by Halti into ordinary voting shares ("Conversion") when it became exercisable. As at the Acquisition Date, Halti held a majority interest in and controlled a mobile game developer Supercell. After the Conversion, the Group increased its equity voting interest in Halti from 50% to 51.2%, and considered it has sufficient power to control Halti. As a result, Halti was accounted for as a subsidiary of the Group upon the Conversion ("Step-up Acquisition"). The equity interest held under investment in an associate was re-measured to fair value and a remeasurement gain of approximately RMB1,550 million was recognised in profit or loss.

Goodwill of approximately RMB59,406 million was recognised as a result of the Step-up Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose. The Group chose to record the non-controlling equity interests in Halti at fair value on Acquisition Date.

41 BUSINESS COMBINATION (continued)

(a) The acquisition of additional equity voting interest in an associate holding a majority interest in Supercell (continued)

The following table summarises the purchase consideration, fair value of assets acquired, liabilities assumed and the non-controlling interest recognised as at the Acquisition Date.

	As at 21 October 2019 RMB'Million
Total consideration:	
Fair value of the previously held interests	
– Equity interests in Halti	**17,735**
– the Group's direct interests in Supercell	**2,017**
Convertible bonds	**312**
Financial guarantee contracts	**(977)**
	19,087
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**1,901**
Restricted cash	**421**
Term deposits	**2,652**
Financial assets at fair value through profit or loss	**1,408**
Accounts receivable	**1,370**
Prepayments, deposits and other assets	**2,819**
Intangible assets	**14,644**
Other assets	**722**
Deferred revenue	**(6,066)**
Borrowings	**(17,934)**
Other financial liabilities	**(12,389)**
Long-term payables	**(8,048)**
Other liabilities	**(564)**
Deferred income tax liabilities	**(2,898)**
Total identifiable net assets	**(21,962)**
Non-controlling interests	**(18,357)**
Goodwill	**59,406**
	19,087

41 BUSINESS COMBINATION (continued)

(a) The acquisition of additional equity voting interest in an associate holding a majority interest in Supercell (continued)

Note:

Prior to the Step-up Acquisition, Halti has granted put option to non-controlling shareholders of Supercell, and the non-controlling shareholders shall have the right to request Halti to purchase their vested shares at a pre-determined schedule. The put price was determined based on the financial performance of Supercell and a pre-determined formula that was set out in the respective shareholders' agreements. Accordingly, the put liability of approximately RMB7,452 million (Note 38) which was measured at the present value of the estimated future cash outflows was recognised upon the completion of Step-up Acquisition. The put liability was subsequently measured at amortised cost.

The Group's revenue for the year would be increased by not more than 5% and the results for the year would not be materially different should the Step-up Acquisition otherwise occur on 1 January 2019.

The related transaction costs of the Step-up Acquisition are not material to the Group's consolidated financial statements.

(b) Other business combinations

During the year ended 31 December 2019, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions was approximately RMB1,280 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB389 million, RMB29 million and RMB920 million, respectively.

The revenue and the results contributed by these acquired subsidiaries for the period since respective acquisition date were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions had occurred on 1 January 2019.

The related transaction costs of these business combinations were not material to the Group's consolidated financial statements.

42 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash inflow from operating activities:

	2019	2018
	RMB'Million	RMB'Million
		(Note 2.2)
Profit for the year	**95,888**	79,984
Adjustments for:		
Income tax expense	**13,512**	14,482
Net gains on disposals and deemed disposals of investee companies	**(8,492)**	(2,932)
Dividend income	**(1,014)**	(686)
Depreciation of property, plant and equipment, investment properties and right-of-use assets	**15,623**	8,423
Amortisation of intangible assets and land use rights	**29,050**	25,825
Net (gains)/losses on disposals of intangible assets and property, plant and equipment	**(85)**	47
Interest income	**(6,314)**	(4,569)
Interest expense	**7,690**	4,898
Equity-settled share-based compensation expenses	**10,127**	7,869
Other expenses in relation to equity transactions of an investee company	**–**	1,519
Share of loss/(profit) of associates and joint ventures	**1,681**	(1,487)
Impairment provision for investments in associates and joint ventures	**3,823**	16,397
Net fair value gains on FVPL and other financial instruments	**(11,158)**	(29,757)
Impairment of intangible assets	**234**	1,181
Exchange gains	**(77)**	(228)
Changes in working capital:		
Accounts receivable	**(6,037)**	(10,302)
Inventories	**(394)**	(29)
Prepayments, deposits and other receivables	**(3,953)**	(4,050)
Accounts payable	**6,445**	22,955
Other payables and accruals	**7,022**	(3,559)
Other tax liabilities	**193**	(19)
Deferred revenue	**12,054**	(505)
Cash generated from operating activities	**165,818**	125,457

42 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Major non-cash transactions

Other than the transaction with non-controlling interests described in Note 41(a), there were no material non-cash transactions during the year ended 31 December 2019.

(c) Net cash/(debt) reconciliation

This section sets out an analysis of net cash/(debt) and the movements in net cash/(debt) for each of the years presented.

Net debt	**As at 31 December**	
	2019	2018
	RMB'Million	RMB'Million
Cash and cash equivalents	**132,991**	97,814
Term deposits and others	**72,270**	69,305
Borrowings – repayable within one year	**(22,695)**	(26,834)
Borrowings – repayable after one year	**(104,257)**	(87,437)
Notes payable – repayable within one year	**(10,534)**	(13,720)
Notes payable – repayable after one year	**(83,327)**	(51,298)
Net debt	**(15,552)**	(12,170)

42 CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Net cash/(debt) reconciliation (continued)

	Cash and cash equivalents RMB'Million	Term deposits and others RMB'Million	Borrowings due within 1 year RMB'Million	Borrowings due after 1 year RMB'Million	Notes payable due within 1 year RMB'Million	Notes payable due after 1 year RMB'Million	Total RMB'Million
Net cash as at							
1 January 2019	**97,814**	**69,305**	**(26,834)**	**(87,437)**	**(13,720)**	**(51,298)**	**(12,170)**
Cash flows	**34,092**	**(1,007)**	**16,092**	**(12,316)**	**13,465**	**(40,202)**	**10,124**
Exchange impacts	**1,085**	**49**	**(247)**	**(918)**	**(128)**	**(1,923)**	**(2,082)**
Other non-cash movements	**–**	**3,923**	**(11,706)**	**(3,586)**	**(10,151)**	**10,096**	**(11,424)**
Net debt as at							
31 December 2019	**132,991**	**72,270**	**(22,695)**	**(104,257)**	**(10,534)**	**(83,327)**	**(15,552)**
Net cash as at							
1 January 2018	105,697	42,540	(15,696)	(82,094)	(4,752)	(29,363)	16,332
Cash flows	(10,090)	24,811	(2,724)	(7,237)	4,666	(32,547)	(23,121)
Exchange impacts	2,207	1,954	(1,559)	(3,598)	(957)	(2,011)	(3,964)
Other non-cash movements	–	–	(6,855)	5,492	(12,677)	12,623	(1,417)
Net debt as at							
31 December 2018	97,814	69,305	(26,834)	(87,437)	(13,720)	(51,298)	(12,170)

43 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2019 and 2018 are analysed as follows:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	**4,180**	2,219
Purchase of other property, plant and equipment	**331**	357
Capital investment in investees (Note)	**18,206**	8,763
	22,717	11,339

Note:

In addition to the amounts disclosed above, on 31 December 2019, the Group has formed a consortium (the "Consortium") together with TME, a non-wholly owned subsidiary of the Company, and certain global financial investors to acquire 10% equity interests in Universal Music Group ("UMG") from its parent company, Vivendi S.A., at an enterprise value of EUR30 billion (the "Transaction"). The Consortium also has the option to purchase an additional 10% equity interests in UMG at the same enterprise value pursuant to the terms of the transaction documents. The Transaction is subject to regulatory approvals and other customary closing conditions.

(b) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media contents agreements are as follows:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**12,405**	7,260
Later than one year and not later than five years	**17,647**	8,332
Later than five years	**3,323**	2,279
	33,375	17,871

44 RELATED PARTY TRANSACTIONS

Except as disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 21 (Transactions with associates), Note 26 (Loans to investees and investees' shareholders) and Note 34 (Share-based payments) to the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2019 and 2018, and no other material balances with related parties as at 31 December 2019 and 2018.

45 SUBSEQUENT EVENTS

With respect to the outbreak of the coronavirus pandemic ("Pandemic"), the Group has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this report. The Group will keep continuous attention on the situation of the Pandemic and react actively to its impacts on the operation and financial position of the Group.

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
ASSETS		
Non-current assets		
Intangible assets	**44**	42
Investments in subsidiaries	**76,024**	60,770
Contribution to Share Scheme Trust	**9**	95
	76,077	60,907
Current assets		
Amounts due from subsidiaries	**74,605**	52,078
Prepayments, deposits and other receivables	**7**	6
Cash and cash equivalents	**52**	63
	74,664	52,147
Total assets	**150,741**	113,054

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) Financial position of the Company (continued)

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	**–**	–
Share premium	**35,271**	27,294
Shares held for share award schemes	**(4,002)**	(4,173)
Other reserves (b)	**171**	(179)
Retained earnings (b)	**2,729**	5,443
Total equity	**34,169**	28,385
LIABILITIES		
Non-current liabilities		
Notes payable	**83,327**	51,298
Other financial liabilities	**701**	1,164
	84,028	52,462
Current liabilities		
Amounts due to subsidiaries	**18,773**	17,454
Other payables and accruals	**3,237**	1,033
Notes payable	**10,534**	13,720
	32,544	32,207
Total liabilities	**116,572**	84,669
Total equity and liabilities	**150,741**	113,054

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(b) Reserve movement of the Company

	Retained earnings RMB'Million	Other reserves RMB'Million
At 1 January 2019	**5,443**	**(179)**
Profit for the year	**5,591**	**–**
Dividends paid relating to 2018	**(8,305)**	**–**
Currency translation differences	**–**	**350**
At 31 December 2019	**2,729**	**171**
At 1 January 2018	8,371	(531)
Profit for the year	4,067	–
Dividends paid relating to 2017	(6,995)	–
Currency translation differences	–	352
At 31 December 2018	5,443	(179)

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2019:

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Computer	Established in the PRC, limited liability company	RMB65,000,000	100% (Note (a))	Provision of value-added services and Internet advertisement services in the PRC
Tencent Technology	Established in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	Development of softwares and provision of information technology services in the PRC
Shenzhen Shiji Kaixuan Technology Company Limited	Established in the PRC, limited liability company	RMB11,000,000	100% (Note (a))	Provision of Internet advertisement services in the PRC
Tencent Cyber (Tianjin) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Asset Management Limited	Established in the British Virgin Islands, limited liability company	USD100	100%	Asset management in Hong Kong
Tencent Technology (Beijing) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	Development and sale of softwares and provision of information technology services in the PRC
Nanjing Wang Dian Technology Company Limited	Established in the PRC, limited liability company	RMB10,290,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing BIZCOM Technology Company Limited	Established in the PRC, limited liability company	RMB1,216,500,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing Starsinhand Technology Company Limited	Established in the PRC, limited liability company	RMB10,000,000	100% (Note (a))	Provision of value-added services in the PRC

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares in the PRC
Tencent Technology (Shanghai) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Chengdu) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD220,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Wuhan) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Cloud Computing (Beijing) Company Limited	Established in the PRC, limited liability company	RMB142,500,000	100% (Note (a))	Provision of information system integration services in the PRC
Morespark Limited	Established in Hong Kong, limited liability company	HKD1,000	100%	Investment holding and provision of online advertisement services in Hong Kong
Beijing Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC
Riot Games, Inc.	Established in the United States, limited liability company	USD1,306	100%	Development and operation of online games in the United States

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
China Literature	Established in the Cayman Islands, limited liability company	USD101,234	58%*	Provision of online literature services in the PRC
TME	Established in the Cayman Islands, limited liability company	USD275,872	49.36%*	Provision of online music entertainment services in the PRC
Supercell	Established in Finland, limited liability company	EUR2,500	66.24%	Development and operation of mobile games in Finland

* on an outstanding basis

Note:

(a) As described in Note 1, the Company does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.

(b) The directors of the Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarised financial information of these non-wholly owned subsidiaries is presented separately.

(c) All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary's undertakings held directly by the parent company does not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Note: (continued)

(d) Significant restrictions

As at 31 December 2019, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB121.98 billion were held in Mainland China and they are subject to local exchange control and other financial and treasury regulations. The local exchange control, and other financial and treasury regulations provide for restrictions, on payment of dividends, share repurchase and offshore investments, other than through normal activities.

(e) Consolidation of structured entities

As mentioned in Note (a) above and Note 34(c), the Company has consolidated the operating entities within the Group without any legal interests and the EISs out of which wholly-owned subsidiaries of the Company act as general partner. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 34(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	**Principal activities**
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

During the year ended 31 December 2019, the Company contributed approximately RMB1,186 million (2018: RMB2,187 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.

羅兵咸永道

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 132 to 264, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

- Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual products/ items
- Impairment assessments of goodwill, investments in associates and joint ventures
- Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual products/items Refer to Note 2.30(a), 4(a) and 5(b) to the consolidated financial statements The Group has recognised revenue from sales of virtual products/items to the users in respect of value-added services rendered on the Group's online platforms. The relevant revenue is recognised over the lifespans of respective virtual products/items which was determined by the management, on an item by item basis, with reference to the expected users' relationship periods or the stipulated period of validity of the relevant virtual products/items, depending on the terms of the virtual products/items. During the year ended 31 December 2018, a majority of the Group's revenue from value-added services was contributed from online games and was predominately derived from the sales of virtual products/items. We focused on this area due to the fact that management applied significant judgment in determining the expected users' relationship periods for certain virtual products/items. These judgment included (i) the determination of key assumptions applied in the expected users' relationship periods, including but not limited to historical users' consumption patterns, churn rates and reactivity on marketing activities, games life-cycle, and the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected users' relationship periods.	We discussed with management and evaluated their judgment on key assumptions in determining the estimated lifespans of the virtual products/items that were based on the expected users' relationship periods. We tested, on a sample basis, key controls in respect of the recognition of revenue from sales of virtual products/items, including management's review and approval of (i) determination of the estimated lifespans of new virtual products/items prior to their launches; and (ii) changes in the estimated lifespans of existing virtual products/items based on periodic reassessment on any indications triggering such changes. We also assessed the data generated from the Group's information system supporting the management's review, including tested the information system logic for generation of reports, and checked, on a sample basis, the monthly computation of revenue recognised on selected virtual products/items generated directly from the Group's information system. We assessed, on a sample basis, the expected users' relationship periods adopted by management by testing the data integrity of historical users' consumption patterns and calculation of the churn rates. We also evaluated the consideration made by management in determining the underlying assumptions for expected users' relationship periods with reference to historical operating and marketing data of the relevant games. We also assessed, on a sample basis, the historical accuracy of the management's estimation process by comparing the actual users' relationship periods for the year against the original estimation for selected virtual products/items. We found that the results of our procedures performed to be materially consistent with management's supporting documentation.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and joint ventures Refer to Notes 2.13(a), 2.15, 4(b), 19, 20 and 21 to the consolidated financial statements As at 31 December 2018, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB32,605 million, RMB219,215 million and RMB8,575 million, respectively. Impairment provision of RMB784 million, RMB14,069 million and RMB2,328 million had been recognised during the year ended 31 December 2018 against the carrying amounts, respectively. We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgment were required by management (i) to identify whether any impairment indicators existed for any of these assets during the year; (ii) to determine the appropriate impairment approaches, i.e. fair value less costs of disposal or value in use; and (iii) to select key assumptions to be adopted in the valuation models, including discounted cash flows and market approach, for the impairment assessments.	We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information. We also tested, on a sample basis, key controls in respect of the impairment assessments, including the determination of appropriate impairment approaches, valuation models and assumptions and the calculation of impairment provisions, which we found no material exceptions. Management adopted different valuation models, on a case by case basis, in carrying out the impairment assessments, mainly including discounted cash flows and market approach. We assessed, on a sample basis, the basis management used to identify separate groups of cash generating units that contain goodwill, the impairment approaches and the valuation models used in management's impairment assessments, which we found them to be appropriate. In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using discounted cash flows, we assessed the key assumptions adopted including revenue growth rates, profit margins, discount rates and other assumptions by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable industry/business data external to the Group. We assessed certain of these key assumptions with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities	
Refer to Notes 3.3, 4(c), 23, 24, 37 to the consolidated financial statements As at 31 December 2018, the Group's financial assets and financial liabilities which were carried at fair value comprised financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities of approximately RMB97,877 million, RMB43,519 million and RMB4,506 million, respectively, of which approximately RMB83,934 million of these financial assets and approximately RMB4,466 million of these financial liabilities were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". We focused on this area due to the high degree of judgment required in determining the respective fair values of Level 3 financial instruments, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation.	In respect of the fair value measurement of Level 3 financial instruments, we tested the key controls, on a sample basis, in relation to the valuation process including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review, which we found no material exceptions. We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested, on a sample basis, valuation of Level 3 financial instruments as at 31 December 2018 by evaluating the underlying assumptions and inputs including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) as well as underlying supporting documentation. We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. We found that the valuation methodology of Level 3 financial instruments is acceptable and the assumptions made by management are supported by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'Million	2017 RMB'Million
Revenues			
Value-added services		**176,646**	153,983
Online advertising		**58,079**	40,439
Others		**77,969**	43,338
	5	**312,694**	237,760
Cost of revenues	8	**(170,574)**	(120,835)
Gross profit		**142,120**	116,925
Interest income	6	**4,569**	3,940
Other gains, net	7	**16,714**	20,140
Selling and marketing expenses	8	**(24,233)**	(17,652)
General and administrative expenses	8	**(41,522)**	(33,051)
Operating profit		**97,648**	90,302
Finance costs, net	9	**(4,669)**	(2,908)
Share of profit of associates and joint ventures	10	**1,487**	821
Profit before income tax		**94,466**	88,215
Income tax expense	11	**(14,482)**	(15,744)
Profit for the year		**79,984**	72,471
Attributable to:			
Equity holders of the Company		**78,719**	71,510
Non-controlling interests		**1,265**	961
		79,984	72,471
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	12(a)	**8.336**	7.598
– diluted	12(b)	**8.228**	7.499

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
Profit for the year	**79,984**	72,471
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
Share of other comprehensive income of associates and joint ventures	**23**	907
Net gains from changes in fair value of available-for-sale financial assets	**–**	16,854
Transfer to profit or loss upon disposal of available-for-sale financial assets	**–**	(2,561)
Currency translation differences	**4,133**	(9,316)
Other fair value gains	**181**	756
Items that will not be subsequently reclassified to profit or loss		
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	**(16,391)**	–
Other fair value losses	**(170)**	(50)
	(12,224)	6,590
Total comprehensive income for the year	**67,760**	79,061
Attributable to:		
Equity holders of the Company	**66,339**	78,218
Non-controlling interests	**1,421**	843
	67,760	79,061

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

		As at 31 December	
		2018	2017
	Note	**RMB'Million**	RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	**35,091**	23,597
Construction in progress	17	**4,879**	3,163
Investment properties		**725**	800
Land use rights	18	**7,106**	5,111
Intangible assets	19	**56,650**	40,266
Investments in associates	20	**219,215**	113,779
Investments in redeemable instruments of associates	2.2(a)	**–**	22,976
Investments in joint ventures	21	**8,575**	7,826
Financial assets at fair value through profit or loss	2.2(a), 23	**91,702**	–
Financial assets at fair value through other comprehensive income	2.2(a), 24	**43,519**	–
Available-for-sale financial assets	2.2(a)	**–**	127,218
Prepayments, deposits and other assets	25	**21,531**	11,173
Other financial assets	2.2(a), 26	**1,693**	5,159
Deferred income tax assets	27	**15,755**	9,793
Term deposits	28	**–**	5,365
		506,441	376,226
Current assets			
Inventories		**324**	295
Accounts receivable	29	**28,427**	16,549
Prepayments, deposits and other assets	25	**18,493**	17,110
Other financial assets	2.2(a), 26	**339**	465
Financial assets at fair value through profit or loss	2.2(a), 23	**6,175**	–
Term deposits	28	**62,918**	36,724
Restricted cash	30	**2,590**	1,606
Cash and cash equivalents	30	**97,814**	105,697
		217,080	178,446
Total assets		**723,521**	554,672

Consolidated Statement of Financial Position

As at 31 December 2018

		As at 31 December	
		2018	2017
	Note	**RMB'Million**	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	31	**–**	–
Share premium	31	**27,294**	22,204
Shares held for share award schemes	31	**(4,173)**	(3,970)
Other reserves	2.2(a), 32	**729**	35,158
Retained earnings	2.2(a)	**299,660**	202,682
		323,510	256,074
Non-controlling interests		**32,697**	21,019
Total equity		**356,207**	277,093
LIABILITIES			
Non-current liabilities			
Borrowings	34	**87,437**	82,094
Notes payable	35	**51,298**	29,363
Long-term payables	36	**4,797**	3,862
Other financial liabilities	37	**3,306**	2,154
Deferred income tax liabilities	27	**10,964**	5,975
Deferred revenue	5(c) (i)	**7,077**	2,391
		164,879	125,839

Consolidated Statement of Financial Position

As at 31 December 2018

		As at 31 December	
		2018	2017
	Note	**RMB'Million**	RMB'Million
Current liabilities			
Accounts payable	38	**73,735**	50,085
Other payables and accruals	39	**33,312**	29,433
Borrowings	34	**26,834**	15,696
Notes payable	35	**13,720**	4,752
Current income tax liabilities		**10,210**	8,708
Other financial liabilities	37	**1,200**	–
Other tax liabilities		**1,049**	934
Deferred revenue	5(c) (i)	**42,375**	42,132
		202,435	151,740
Total liabilities		**367,314**	277,579
Total equity and liabilities		**723,521**	554,672

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 132 to 264 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf:

Ma Huateng
Director

Lau Chi Ping Martin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 31 December 2017, as previously reported	–	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093
Adjustment on adoption of IFRS 9 (Note 2.2(a))	–	–	–	(16,210)	16,210	–	–	–
Balance at 1 January 2018	–	22,204	(3,970)	18,948	218,892	256,074	21,019	277,093
Comprehensive income								
Profit for the year	–	–	–	–	78,719	78,719	1,265	79,984
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	23	–	23	–	23
– net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	(16,095)	–	(16,095)	(296)	(16,391)
– currency translation differences	–	–	–	3,681	–	3,681	452	4,133
– other fair value gains, net	–	–	–	11	–	11	–	11
Total comprehensive income for the year	–	–	–	(12,380)	78,719	66,339	1,421	67,760
Transfer of gains on disposal of financial assets at fair value through other comprehensive income to retained earnings	–	–	–	(9,561)	9,561	–	–	–
Share of other changes in net assets of associates	–	–	–	2,861	–	2,861	–	2,861

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	140	140
Employee share option schemes:								
– value of employee services	–	1,983	–	63	–	2,046	57	2,103
– proceeds from shares issued	–	525	–	–	–	525	–	525
Employee share award schemes:								
– value of employee services	–	5,022	–	466	–	5,488	277	5,765
– shares withheld for share award schemes	–	–	(2,187)	–	–	(2,187)	–	(2,187)
– vesting of awarded shares	–	(1,984)	1,984	–	–	–	–	–
Repurchase and cancellation of shares	–	(783)	–	–	–	(783)	–	(783)
Tax benefit from share-based payments of a subsidiary	–	–	–	148	–	148	–	148
Profit appropriations to statutory reserves	–	–	–	517	(517)	–	–	–
Dividends (Note 15)	–	–	–	–	(6,995)	(6,995)	(618)	(7,613)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	1,003	1,003
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	327	–	(877)	–	(550)	1,664	1,114
Partial disposal of subsidiaries	–	–	–	–	–	–	(31)	(31)
Dilution of interests in subsidiaries	–	–	–	2,836	–	2,836	5,879	8,715
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	–	(1,886)	–	(1,886)	1,886	–
Recognition of financial liabilities in respect of the put option from business combination	–	–	–	(406)	–	(406)	–	(406)
Total transactions with equity holders at their capacity as equity holders for the year	–	5,090	(203)	861	(7,512)	(1,764)	10,257	8,493
Balance at 31 December 2018	–	27,294	(4,173)	729	299,660	323,510	32,697	356,207

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

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

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'Million	2017 RMB'Million
Cash flows from operating activities			
Cash generated from operations	41(a)	**120,964**	120,002
Income tax paid		**(14,521)**	(13,862)
Net cash flows generated from operating activities		**106,443**	106,140
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		**(3,206)**	(21)
Net outflow of cash in respect of disposals and deemed disposals of subsidiaries		**(201)**	(3)
Purchase of property, plant and equipment, construction in progress and investment properties		**(19,743)**	(12,108)
Proceeds from disposals of property, plant and equipment		**33**	28
Purchase of/prepayment for intangible assets		**(31,877)**	(19,850)
Purchase of/prepayment for land use rights		**(2,441)**	(46)
Payments for acquisition of investments in associates		**(37,776)**	(17,528)
Proceeds from disposals of investments in associates		**429**	608
Payments for acquisition of investments in redeemable instruments of associates		**–**	(16,384)
Proceeds from disposals of investments in redeemable instruments of associates		**–**	507
Payments for acquisition of investments in joint ventures		**(2,352)**	(7,091)
Proceeds from disposals of investments in joint ventures		**–**	9
Payments for acquisition of financial assets at fair value through other comprehensive income		**(17,669)**	–
Proceeds from disposals of financial assets at fair value through other comprehensive income		**22,224**	–
Payments for acquisition of financial assets at fair value through profit or loss		**(54,141)**	–
Proceeds from disposals of financial assets at fair value through profit or loss		**11,254**	–
Payments for available-for-sale financial assets and related derivative financial instruments		**–**	(47,716)
Proceeds from disposals of available-for-sale financial assets		**–**	4,705

	Year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
Payments for loans to investees and others	**(2,523)**	(2,219)
Loans repayments from investees and others	**745**	1,533
Payments for other financial assets	**–**	(995)
Proceeds from settlement of other financial assets	**–**	995
Receipt from maturity of term deposits with initial terms of over three months	**46,227**	86,166
Placement of term deposits with initial terms of over three months	**(67,055)**	(72,520)
Interest received	**4,435**	3,529
Dividends received	**1,724**	2,009
Net cash flows used in investing activities	**(151,913)**	(96,392)
Cash flows from financing activities		
Proceeds from short-term borrowings	**26,463**	16,676
Repayments of short-term borrowings	**(23,545)**	(12,450)
Proceeds from long-term borrowings	**7,237**	33,517
Repayments of long-term borrowings	**(194)**	(5,281)
Net proceeds from issuance of notes payable	**32,547**	–
Repayments of notes payable	**(4,666)**	(3,450)
Proceeds from issuance of ordinary shares	**525**	171
Shares withheld for share award schemes	**(1,967)**	(2,232)
Payments for repurchase of shares	**(783)**	–
Proceeds from issuance of additional equity of non-wholly owned subsidiaries	**7,238**	6,466
Proceeds from disposals of non-controlling interests in non-wholly owned subsidiaries	**157**	106
Payments for acquisition of non-controlling interests in non-wholly owned subsidiaries	**(236)**	(927)
Dividends paid to the Company's shareholders	**(6,776)**	(5,052)
Dividends paid to non-controlling interests	**(620)**	(946)
Net cash flows generated from financing activities	**35,380**	26,598

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
Net (decrease)/increase in cash and cash equivalents	**(10,090)**	36,346
Cash and cash equivalents at beginning of the year	**105,697**	71,902
Exchange gains/(losses) on cash and cash equivalents	**2,207**	(2,551)
Cash and cash equivalents at end of the year	**97,814**	105,697

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

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

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

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

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

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

1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.3(a) and Note 46) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 46.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, other financial liabilities and derivative financial instruments, which are carried at fair value.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2018:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 2 (amendment)	Classification and measurement of share-based payment transactions
IAS 40 (amendment)	Transfers of investment property
IFRIC 22	Foreign currency transactions and advance consideration

The Group has changed its accounting policies following the adoption of IFRS 9 and IFRS 15. Except IFRS 9, the adoption of these new and amended standards does not have significant impact on the consolidated financial statements of the Group, details of which are disclosed in Note 2.2.

(b) New standards and interpretations issued but not yet effective

A number of new standards and interpretations have not come into effect for the financial year beginning 1 January 2018, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except IFRS 16 "Lease" as set out below:

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements effective as of the year of ended 31 December 2018 in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB12,294 million, see Note 42. Of these commitments, approximately RMB189 million relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) New standards and interpretations issued but not yet effective (Cont'd)

For the remaining lease commitments, based on management's preliminary assessment, the Group expects to recognise right-of-use assets of approximately RMB10 billion and lease liabilities of approximately RMB10 billion on 1 January 2019. The Group expects that net profit will not be materially changed as a result of adopting the new rules. It will result in reclassification of operating cash flows and financing cash flows relating to the payments of lease liabilities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the consolidated financial statements. However, some additional disclosures will be required from the financial year beginning on 1 January 2019.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses).

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements.

(a) IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group's adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in Note 2.16 and 2.17 below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities were recognised at the beginning of the current year, with the difference recognised in opening retained earnings.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Changes in accounting policies (Cont'd)

(a) IFRS 9 Financial Instruments (Cont'd)

Classification and measurement

Management has assessed the business model and the terms relating to the collection of contractual cash flows applicable to the financial assets held by the Group at the date of initial application of IFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

At 1 January 2018	AFS RMB'Million	RCPS RMB'Million	OFA RMB'Million	FVPL RMB'Million	FVOCI RMB'Million	Total RMB'Million
Opening balance – IAS 39	**127,218**	**22,976**	**5,624**	**–**	**–**	**155,818**
Reclassification of available-for-sale financial assets ("AFS") to financial assets at fair value through profit or loss ("FVPL")	**(68,703)**	**–**	**–**	**68,703**	**–**	**–**
Reclassification of AFS to financial assets at fair value through other comprehensive income ("FVOCI")	**(58,515)**	**–**	**–**	**–**	**58,515**	**–**
Reclassification of investments in redeemable instruments of associates ("RCPS") to FVPL	**–**	**(22,976)**	**–**	**22,976**	**–**	**–**
Reclassification of other financial assets ("OFA") to FVPL	**–**	**–**	**(3,818)**	**3,818**	**–**	**–**
Opening balance – IFRS 9	**–**	**–**	**1,806**	**95,497**	**58,515**	**155,818**

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Changes in accounting policies (Cont'd)

(a) IFRS 9 Financial Instruments (Cont'd)

Classification and measurement (Cont'd)

The main effects resulting from this reclassification on the Group's equity are as follows:

At 1 January 2018	Effect on AFS reserves RMB'Million	Effect on FVOCI reserves RMB'Million	Effect on retained earnings RMB'Million
Opening balance – IAS 39	**31,152**	**–**	**202,682**
Reclassification of AFS to FVPL	**(16,210)**	**–**	**16,210**
Reclassification of AFS to FVOCI	**(14,942)**	**14,942**	**–**
Total impact	**(31,152)**	**14,942**	**16,210**
Opening balance – IFRS 9	**–**	**14,942**	**218,892**

Certain equity investments and debt instruments previously classified as AFS at an aggregated amount of RMB68,703 million were reclassified from AFS to FVPL on 1 January 2018, and accumulated fair value gains of RMB16,210 million were transferred from the AFS reserves to retained earnings on 1 January 2018.

Certain equity investments of RMB58,515 million were reclassified from AFS to FVOCI on 1 January 2018, because these investments are not held for trading and meet the definition of equity instruments from the perspective of the issuer. The Group elected to classify them as FVOCI. As a result, accumulated fair value gains of RMB14,942 million were transferred from the AFS reserves to FVOCI reserves on 1 January 2018.

Investments in RCPS of RMB22,976 million with embedded derivatives of RMB3,818 million previously recorded in OFA were considered in their entirety as a single instrument and were reclassified to FVPL as at 1 January 2018. They do not meet the definition of equity instruments from the perspective of the issuer and they are not eligible to be classified as at amortised cost in accordance with IFRS 9, because their cash flows do not represent solely payments of principal and interest. There was no impact on the amounts previously recognised in profit or loss in relation to these assets from the adoption of IFRS 9.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Changes in accounting policies (Cont'd)

(a) IFRS 9 Financial Instruments (Cont'd)

Classification and measurement (Cont'd)

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

Derivative and hedging activities

In prior years, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its borrowings carried at floating rates, which were qualified as hedge accounting. The interest rate swaps in place as at 31 December 2017 qualified as cash flow hedges under IFRS 9 and have been thus treated as continuing hedges upon the adoption of the standard.

Impairment of financial assets

The Group has the following types of financial assets subject to the new expected credit loss model under IFRS 9:

- Accounts receivable; and
- Deposits and other receivables.

For accounts receivable, the Group applies the simplified approach for expected credit losses prescribed by IFRS 9. Based on the assessments performed by management, the changes in the loss allowance for accounts receivable were not significant.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. Based on the assessments performed by management, the changes in the loss allowance for deposits and other receivables were insignificant.

(b) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach, provides specific guidance on contract costs and license arrangements, and also includes a cohesive set of disclosure requirements about revenue and cash flows arising from the contracts with customers of which details are disclosed in Note 5. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively, and since the impact is not material to the consolidated financial statements of the Group, comparative figures have not been restated.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Subsidiaries

(a) Consolidation

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

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

(i) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(i) Business combinations (Cont'd)

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

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

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

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

(iii) Disposal of subsidiaries

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Subsidiaries (Cont'd)

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 46(e)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust", and will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition of the Company's shares.

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

2.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include underlying goodwill identified on acquisition, net of any accumulated impairment loss.

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

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method, including investments in associates and joint arrangements (Note 2.5), are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other gains/(losses), net" in the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Associates (Cont'd)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.5 Joint arrangements

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

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

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.6 Investments in associates/joint ventures achieved in stages

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

2.7 Disposal of associates

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

2.8 Segment reporting

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

2.9 Foreign currency translation

(a) Functional and presentation currency

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Foreign currency translation (Cont'd)

(b) Transactions and balances

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

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified as FVOCI, are included in other comprehensive income.

(c) Group companies

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

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

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

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.10 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15).

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Investment properties

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

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

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

2.12 Land use rights

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

2.13 Intangible assets

(a) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred plus acquisition-date fair value of the equity interests previously held by the Group and the non-controlling interests in the acquired entity over the fair value of the net identifiable assets of the acquiree.

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately under "Other gains/(losses), net" and is not subsequently reversed.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.13 Intangible assets (Cont'd)

(b) Licensed online contents

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

(c) Other intangible assets

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

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

2.14 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 46(e)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and the amount is deducted from total equity.

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

2.15 Impairment of non-financial assets

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets

(a) Classification and measurement

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Initial recognition and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt investment measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest rate method.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(a) Classification and measurement (Cont'd)

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net" in the consolidated income statement. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in "finance costs, net" and impairment losses or reversals for "Other gains/(losses), net".

- FVPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "Other gains/(losses), net" for the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Equity instruments

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group's management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they meet the definition of equity instrument under IAS 32 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made an irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as "Other gains/(losses), net" when the Group's right to receive payments is established. Equity instruments designated as FVOCI are not subject to impairment assessment.

FVPL include financial assets designated upon initial recognition at fair value through profit or loss and financial assets that do not meet the criteria for amortised cost or FVOCI. Changes in the fair value of FVPL are recognised in "Other gains/(losses), net" in the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(b) Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

(c) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 31 December 2017, the Group classified its financial assets in the following categories: FVPL, loans and receivables and AFS. The classification depended on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determined the classification of its financial assets at initial recognition.

(i) FVPL

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(c) Accounting policies applied until 31 December 2017 (Cont'd)

Classification (Cont'd)

(ii) Loans and receivables

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

(iii) AFS

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

Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, AFS and FVPL are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of AFS are recognised in other comprehensive income.

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

Interest on loans and receivables calculated using the effective interest method is recognised in the consolidated income statement as part of interest income. Dividends on AFS equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(c) Accounting policies applied until 31 December 2017 (Cont'd)

Impairment

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

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

- Assets carried at amortised cost

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(c) Accounting policies applied until 31 December 2017 (Cont'd)

Impairment (Cont'd)

- Assets classified as AFS

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

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

Hybrid financial instruments

Hybrid financial instruments held by the Group comprise instruments with redemption features of associates that can be converted to ordinary shares at the option of the holder.

The Group either (i) accounts for different components of the hybrid financial instruments separately or (ii) designates the entire financial instruments as financial assets/liabilities at fair value through profit or loss. The host component is recognised initially at the difference between the fair value of the hybrid financial instrument as a whole and the fair value of the embedded derivatives. The subsequent measurement of the host component and embedded derivatives follow the respective accounting policy of financial instruments as stated in Notes 2.16(c) above and 2.17.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.17 Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). The Group documents at the inception of the hedging relationship the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the hedge effectiveness requirements under IFRS 9. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through other comprehensive income within equity, while any ineffective portion is recognised immediately in profit or loss, within "Other gains/(losses), net".

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within other comprehensive income in the costs of hedging reserve within equity.

Amounts accumulated in equity are accounted for, depending on the nature of the underlying hedged transaction, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, the amounts accumulated in equity are removed from other reserves and included within the initial cost of the asset. These deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.
- For any other cash flow hedges, the gain or loss relating to the effective portion of the derivatives is reclassified to profit or loss at the same time when the hedged cash flows affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging included in equity are immediately reclassified to profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.18 Offsetting financial instruments

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

2.19 Inventories

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

2.20 Accounts receivable

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

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

2.21 Cash and cash equivalents and restricted cash

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

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

2.22 Share capital

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.23 Accounts payable

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

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

2.24 Put option arrangements

Put options are financial instruments granted by the Group which permit the holders to put back to the Group their shares in certain subsidiaries for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial assets under the put option, a financial liability is initially recognised at the present value of the estimated future cash outflows on exercise under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount based on the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustment will be recognised as "Other gains/(losses), net" in the consolidated income statement. In the event that the put option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The put option liabilities are current liabilities unless the put option first becomes exercisable 12 months after the end of the reporting period.

2.25 Financial guarantee contracts

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

The financial guarantee contracts are initially recognised as a financial liability at fair value on the date the guarantee is given. The liability is subsequently measured at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 Financial guarantee contracts (Cont'd)

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of the investees are provided for no compensation, the fair value is accounted for as contributions and recognised as part of the cost of the investment.

2.26 Borrowings, notes payable and borrowing costs

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

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

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

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

General and specific finance costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year ended 31 December 2018, finance cost capitalised was insignificant to the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.27 Current and deferred income tax

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

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and tax losses.

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services and other qualifying participants' services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, 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 the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation techniques to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Employee benefits (Cont'd)

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

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

From the perspective of the Company, the grants of its equity instruments to employees of its subsidiaries are made 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 the Company's statement of financial position.

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

2.29 Provisions

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Provisions (Cont'd)

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

2.30 Revenue recognition

The Group generates revenues primarily from provision of VAS, 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.

(a) 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. The Group offers virtual products/items to users on the Group's online platforms. The VAS fees are paid directly by end users mainly via online payment channels.

Revenue from VAS is recognised when the Group satisfies its performance obligations by rendering services. Giving there is an explicit or implicit obligation of the Group to maintain the virtual products/items operated on the Group's 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, the Group allocates 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.30 Revenue recognition (Cont'd)

(a) VAS (Cont'd)

In respect of the Group's VAS services directly delivered to the Group's customers and paid through various third parties platforms, these third party platforms collect the relevant service fees (the "Online Service Fees") on behalf of the Group and they are entitled to a pre-determined percentage of 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 the Group. The Group recognises 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 stated in (d) below, and recognises such Channel and distribution costs as cost of revenues.

The Group also opens its online platforms to third-party game/application developers under certain co-operation agreements, of which the Group pays to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of the Group's online platforms for the virtual products/items purchased. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction.

The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

(b) Online advertising

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

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 ads for an agreed period of time, and performance-based advertising.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.30 Revenue recognition (Cont'd)

(b) Online advertising (Cont'd)

Revenue from display-based advertising are 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 are recognised when relevant specific performance measures are fulfilled. Where the contracts include multiple performance obligations, the Group allocates 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.

(c) Other revenues

The Group's other revenues are primarily derived from provision of FinTech services, cloud services, television series and film production services and other businesses. The Group recognises other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

(d) Principal agent consideration

The Group reports revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.30 Revenue recognition (Cont'd)

(e) Contract liabilities and contract costs

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise of unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the inception dates (Note 5(c)), and customer loyalty incentives offered to the customers.

Contract costs include incremental costs of obtaining a contract and costs to fulfil a contract with the customers. The contract costs are amortised using a method which is consistent with the pattern of recognition of the respective revenues.

(f) Practical expedients and exemptions

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less. The unsatisfied performance obligation related to cooperation arrangements with certain investees have been included in deferred revenue.

2.31 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "Interest income" where it is mainly earned from financial assets that are held for cash management purposes.

Accounting policies applied until 31 December 2017

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.32 Dividend income

Dividends are received from FVPL and FVOCI (2017: from AFS). Dividends are recognised in "Other gains/(losses), net" in the consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2.33 Government grants/subsidies

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

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

2.34 Leases

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

2.35 Dividends distribution

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

2.36 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures by using foreign currency forwards.

During the year ended 31 December 2018, the Group 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 the Group's policy the critical terms of the forwards must align with the hedged items.

The Group only designates 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 the Group's consolidated financial statements.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

As at 31 December 2018, the Group's major monetary assets and liabilities exposed to foreign exchange risk are listed below:

	USD denominated RMB'Million	Non-USD denominated RMB'Million
As at 31 December 2018		
Monetary assets, current	**18,041**	**1,994**
Monetary assets, non-current	**2,642**	**–**
Monetary liabilities, current	**(3,434)**	**(4,587)**
Monetary liabilities, non-current	**(3,733)**	**(9,430)**
	13,516	**(12,023)**
As at 31 December 2017		
Monetary assets, current	13,795	1,563
Monetary assets, non-current	1,309	–
Monetary liabilities, current	(2,747)	(15,744)
Monetary liabilities, non-current	(1,833)	(5,115)
	10,524	(19,296)

During the year ended 31 December 2018, the Group reported exchange gains of approximately RMB229 million (2017: RMB152 million) within "Finance costs, net" in the consolidated income statement.

As at 31 December 2018, management considers that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency are considered to be not significant, given the exchange rate peg between HKD and USD. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(ii) Price risk

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified either as FVPL (Note 23) or FVOCI (Note 24). To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group's liquidity level simultaneously. Each investment is managed by senior management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL and FVOCI (2017: AFS) at the end of each reporting period. If prices of the respective instruments held by the Group had been 5% (31 December 2017: 5%) higher/lower as at 31 December 2018, profit for the year would have been approximately RMB4,794 million higher/lower as a result of gains/losses on financial instruments classified as at FVPL, other comprehensive income would have been approximately RMB2,147 million higher/lower as a result of gains/losses on financial instruments classified as at FVOCI (2017: RMB4,069 million).

(iii) Interest rate risk

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

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

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

During the year ended 31 December 2018, the Group entered into certain interest rate swap contracts to hedge its exposure arising from borrowings carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings from floating rates to fixed rates and were qualified for hedge accounting. Details of the Group's outstanding interest rate swap contracts as at 31 December 2018 have been disclosed in Note 26.

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

	2018	2017
	RMB'Million	RMB'Million
Interest rate swaps		
Carrying amount	**1,663**	1,300
Notional amount	**77,630**	70,184
Maturity date	**2019/6/28~**	2019/6/28~
	2023/12/8	2023/12/8
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments since 1 January	**181**	756
Change in value of hedged item used to determine hedge effectiveness	**181**	756
Weighted average hedged rate for the year	**1.60%**	1.52%

Swaps currently in place cover majority of the floating-rate borrowing and notes payable principal outstanding.

As at 31 December 2018 and 2017, management considered that any reasonable changes in the interest rates would not result in a significant change in the Group's results as the Group's exposure to cash flow interest-rate risk arising from its borrowings and notes payable carried at floating rates after considering the effect of hedging is considered to be insignificant. Accordingly, no sensitivity analysis is presented for interest rate risk.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk

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

(i) Credit risk of cash and deposits and short-term investments

To manage this risk, the Group only makes 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

To manage this risk, the Group has 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 its counterparties. In addition, the Group has a large number of customers and there is no concentration of credit risk.

The Group's online advertising that are sales to/through advertising agencies or directly to the advertisers are at term of full advances, partial advances or sales on credit according to the Group's credit policies. The credit period granted to the customers is usually not more than 90 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors.

The Group's revenues from VAS are generally paid by end users mainly via online payment channels, whereas the revenues from VAS delivered to its end users through third party platforms are collected by these third party platform providers and remitted to the Group under a credit period within 60 days. In addition, the Group also sells prepaid credits through various channels such as sales agents, telecommunication operators, third party platform providers and Internet cafes, etc. Apart from certain credit periods granted to the telecommunication operators and third party platform providers, full advances are required from other channels.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(ii) Credit risk of accounts receivable (Cont'd)

The Group applies 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. 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 the Group, and its 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. Management believes that the expected credit loss is immaterial and the credit risk inherent in the Group's outstanding accounts receivable balances due from these counterparties is not significant.

(iii) Credit risk of other receivables

Other receivables at the end of each of the years are mainly comprised of loans to investees and investees' shareholders, rental deposits and other receivables. The Group considers the probability of default upon initial recognition of asset and whether there has been 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, the Group compares risk of default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor;
- significant changes in the expected performance and behavior of the debtor, including changes in the payment status of the debtor.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(iii) Credit risk of other receivables (Cont'd)

Management considers the credit risk of other receivables is insignificant when they have a low risk of default and the issuer 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.

Previous accounting policy for impairment of accounts receivable and other receivables is described in note 2.16(c).

(c) Liquidity risk

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date (or the earliest date a financial liability may become payable in the absence of a fixed maturity date). The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2018					
Non-derivatives:					
Notes payable	**15,780**	**12,010**	**14,629**	**38,305**	**80,724**
Long-term payables	**–**	**3,113**	**1,018**	**343**	**4,474**
Borrowings	**30,402**	**21,309**	**72,626**	**–**	**124,337**
Other financial liabilities	**1,191**	**942**	**1,615**	**–**	**3,748**
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	**90,310**	**–**	**–**	**–**	**90,310**
Derivatives:					
Other financial liabilities	**9**	**–**	**31**	**–**	**40**
	137,692	**37,374**	**89,919**	**38,648**	**303,633**
At 31 December 2017					
Non-derivatives:					
Notes payable	5,892	13,832	10,757	7,492	37,973
Long-term payables	–	2,345	905	734	3,984
Borrowings	18,190	10,127	71,663	6,109	106,089
Other financial liabilities	–	–	2,068	–	2,068
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	65,651	–	–	–	65,651
Derivatives:					
Other financial liabilities	–	–	86	–	86
	89,733	26,304	85,479	14,335	215,851

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management

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

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

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

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Borrowings (Note 34)	**114,271**	97,790
Notes payable (Note 35)	**65,018**	34,115
Total debts	**179,289**	131,905
Adjusted EBITDA (Note)	**118,273**	95,861
Total debts/Adjusted EBITDA ratio	**1.52**	1.38

Note:

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
As at 31 December 2018				
FVPL	**10,875**	**5,009**	**81,993**	**97,877**
FVOCI	**41,578**	**–**	**1,941**	**43,519**
OFA	**–**	**2,032**	**–**	**2,032**
Other financial liabilities	**–**	**40**	**4,466**	**4,506**
As at 31 December 2017				
AFS	53,574	331	73,313	127,218
OFA	–	1,806	3,818	5,624
Other financial liabilities	–	–	2,154	2,154

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

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

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

Specific valuation techniques used to value financial instruments mainly include:

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

During the year ended 31 December 2018, there was no transfer between level 1 and 2 for recurring fair value measurements. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 instruments for the years ended 31 December 2018 and 2017:

	Financial assets		**Financial liabilities**	
	2018	2017	**2018**	2017
	RMB'Million	RMB'Million	**RMB'Million**	RMB'Million
Opening balance - IAS 39	**77,131**	65,599	**2,154**	2,576
Adjustment on adoption of IFRS 9 (Note 2.2(a))	**22,976**		**–**	
Opening balance - IFRS 9	**100,107**		**2,154**	
Additions	**51,185**	31,795	**3,301**	–
Disposals/Settlement	**(9,899)**	(7,006)	**–**	–
Transfers	**(93,151)**	(18,641)	**–**	–
Changes in fair value recognised in other comprehensive income	**261**	6,220	**–**	–
Changes in fair value recognised in profit or loss *	**30,485**	4,027	**(1,063)**	(271)
Impairment provision	**–**	(581)	**–**	–
Currency translation differences	**4,946**	(4,282)	**74**	(151)
Closing balance	**83,934**	77,131	**4,466**	2,154
*Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	**6,861**	3,954	**(1,063)**	(271)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

Valuation processes inputs and relationships to fair value (Level 3)

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

The components of the level 3 instruments mainly include investments in unlisted companies classified as FVPL or FVOCI, and other financial liabilities. Other financial liabilities mainly include: (i) contingent consideration payable related to business combination of the Group; and (ii) guarantee provided by the Group on certain put arrangements of an associate and put options issued by the Group to certain investors of the associate, at a pre-determined pricing formula. As these investments and instruments are not traded in an active market, majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgment, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other exposure, etc.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	**Fair value as at 31 December**		**Significant unobservable inputs**	**Range of inputs at 31 December**		**Relationship of unobservable inputs to fair value**
	2018	2017		**2018**	2017	
	RMB'Million	RMB'Million				
Investments in unlisted companies	**83,934**	77,131	Expected volatility	**28% ~ 76%**	31% ~ 59%	The higher the expected volatility, the lower the fair value
Contingent consideration related to business combination	**3,145**	–	Growth rate of net profit	**50%**	N/A	The higher the growth rate, the higher the fair value
			Expected volatility	**15%**	N/A	The higher the expected volatility, the lower the fair value

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

For the fair value of the Group's investments in unlisted companies, the sensitivity analysis is performed by management, see Note 3.1 (a) (ii) for details.

For the fair value of contingent consideration related to business combination, if growth rate of net profit had been 5% higher or lower as at 31 December 2018, the fair value would have increased approximately RMB150 million or decreased approximately RMB171 million. If the expected volatility had been 5% higher or lower as at 31 December 2018, the fair value would have decreased approximately RMB90 million or increased approximately RMB92 million.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

As mentioned in Note 2.30(a), the end users purchase certain virtual products/items provided on the Group's online platforms and the relevant revenue is recognised based on the estimated lifespans of the virtual products/items. The estimated lifespans of different virtual products/items are determined by the management based on either the expected users' relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective terms of virtual products/items.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(b) Recoverability of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property, plant and equipment, construction in progress, other intangible assets, investment properties, land use rights, 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 the Group's 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 the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statement.

(c) Fair value measurement of 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.

(d) Share-based compensation arrangements

As mentioned in Note 2.28(c), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the Binomial Model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Binomial Model (Note 33).

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD3,533 million (equivalent to approximately RMB2,868 million) in 2018 (2017: HKD2,691 million (equivalent to approximately RMB2,373 million)).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(d) Share-based compensation arrangements (Cont'd)

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2018, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be 88%-97% (31 December 2017: 88%-97%).

(e) Income taxes

The Group is 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.

5 SEGMENT INFORMATION AND REVENUES

(a) Description of segments and principal activities

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

The Group has following reportable segments for the years ended 31 December 2018 and 2017:

– VAS;

– Online advertising; and

– Others.

"Others" segment primarily comprises FinTech services, cloud services, television series and film production services and other services.

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

5 SEGMENT INFORMATION AND REVENUES

(a) Description of segments and principal activities (Cont'd)

There were no material inter-segment sales during the years ended 31 December 2018 and 2017. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

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

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2018 and 2017 is as follows:

	Year ended 31 December 2018			
	VAS	**Online advertising**	**Others**	**Total**
	RMB'Million	**RMB'Million**	**RMB'Million**	**RMB'Million**
Segment revenues	**176,646**	**58,079**	**77,969**	**312,694**
Gross profit	**102,685**	**20,806**	**18,629**	**142,120**
Depreciation	**1,996**	**1,376**	**3,658**	**7,030**
Amortisation	**11,663**	**12,462**	**573**	**24,698**

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

5 SEGMENT INFORMATION AND REVENUES (Cont'd)

(a) Description of segments and principal activities (Cont'd)

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

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. During the years ended 31 December 2018 and 2017, the place of incorporation on the total revenues is as follows:

	2018	2017
	RMB'Million	RMB'Million
Revenues		
– Mainland China	**303,657**	229,767
– Others	**9,037**	7,993
	312,694	237,760

The Group also conducts operations in the United States of America ("United States"), Europe and other regions, and holds investments (including investments in associates, investments in joint ventures, FVPL, FVOCI (31 December 2017: investments in associates, RCPs together with embedded deriatives recorded in OFA, investments in joint ventures, and AFS)) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Operating assets		
– Mainland China	**270,373**	219,285
– Others	**83,962**	59,770
Investments		
– Mainland China and Hong Kong	**254,992**	161,903
– North America	**44,835**	52,542
– Europe	**37,451**	34,515
– Asia excluding Mainland China and Hong Kong	**30,148**	26,407
– Others	**1,760**	250
	723,521	554,672

5 SEGMENT INFORMATION AND REVENUES (Cont'd)

(a) Description of segments and principal activities (Cont'd)

As at 31 December 2018, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China and other regions amounted to RMB282,774 million (31 December 2017: RMB159,563 million) and RMB65,057 million (31 December 2017: RMB42,421 million), respectively.

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the years ended 31 December 2018 and 2017.

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue of the Group from contracts with customers is disaggregated by revenue source. The table also includes a reconciliation to the segment information (Note 5(a)).

	2018	2017
	RMB'Million	RMB'Million
Revenue from contracts with customers		
– VAS	**176,646**	153,983
Online games	***103,992***	*97,883*
Social networks	***72,654***	*56,100*
– Online advertising	**58,079**	40,439
Media advertising	***18,306***	*14,829*
Social and others advertising	***39,773***	*25,610*
– Others	**77,969**	43,338
	312,694	237,760

5 SEGMENT INFORMATION AND REVENUES (Cont'd)

(c) Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers under "Deferred revenue":

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Contract liabilities:		
VAS	**31,787**	34,360
Online advertising	**9,145**	5,238
Others	**1,105**	232
	42,037	39,830

Note:

(i) Contract liabilities

Contract liabilities mainly comprises of unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the inception dates (Note 20), and customer loyalty incentives offered to the customers.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	2018	2017
	RMB'Million	RMB'Million
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
VAS	**34,360**	20,444
Online advertising	**2,681**	1,597
Others	**232**	143
	37,273	22,184

As at 31 December 2018, total capitalised costs to obtain or fulfill a contract with customer were immaterial.

6 INTEREST INCOME

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

7 OTHER GAINS, NET

	2018	2017
	RMB'Million	RMB'Million
Net fair value gains on FVPL (Note (a))	**28,738**	–
Impairment provision for investee companies and intangible assets arising from acquisitions (Note (b))	**(17,577)**	(2,794)
Subsidies and tax rebates	**3,456**	3,971
Net gains on disposals and deemed disposals of investee companies (Note (a), (c))	**2,932**	13,518
Net fair value gains on other financial instruments (Note 26, 37)	**1,019**	4,298
Donations to Tencent Charity Funds	**(730)**	(820)
Dividend income	**686**	1,713
Others (Note (d))	**(1,810)**	254
	16,714	20,140

Note:

(a) Net fair value gains on FVPL included aggregate gains of approximately RMB22,215 million, arising from reclassification of several investments principally engaged in Internet-related business from FVPL to investments in associates due to the conversion of redeemable instruments or preferred shares into ordinary shares with board representative upon their respective initial public offering ("IPO"). In 2017, aggregate gains of approximately RMB3,663 million arising from the similar transactions were recognised in net gains on disposals and deemed disposals of investee companies.

(b) The impairment provision for investee companies and intangible assets arising from acquisitions mainly comprised the following:

	2018	2017
	RMB'Million	RMB'Million
Investments in associates (Note 20)	**14,069**	1,277
Investments in joint ventures (Note 21)	**2,328**	–
Intangible assets arising from acquisitions	**1,180**	239
RCPS	**–**	607
AFS	**–**	671
	17,577	2,794

7 OTHER GAINS, NET (Cont'd)

Note: (Cont'd)

(c) The disposal and deemed disposal gains during the year ended 31 December 2018 mainly comprised the following:

- net gains of approximately RMB1,661 million (2017: RMB6,229 million) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 20). These investee companies are principally engaged in Internet-related business;
- aggregate net gains of approximately RMB1,271 million (2017: RMB3,626 million) on disposals, acquisition achieved in stages or partial disposals of various investments of the Group.

(d) Included one-off expenses of RMB1,519 million recognised by a non-wholly owned subsidiary of the Group arising from the issuance of ordinary shares to strategic partners.

8 EXPENSES BY NATURE

	2018	2017
	RMB'Million	RMB'Million
Employee benefits expenses (Note (a) and Note 13)	**42,153**	34,866
Content costs (excluding amortisation of intangible assets)	**39,061**	28,177
Channel and distribution costs	**32,821**	25,109
Bandwidth and server custody fees	**15,818**	11,203
Promotion and advertising expenses	**19,806**	13,661
Operating lease rentals in respect of office buildings	**1,614**	1,335
Travelling and entertainment expenses	**1,450**	1,040
Amortisation of intangible assets (Note (b) and Note 19)	**25,616**	18,622
Depreciation of property, plant and equipment (Note 16)	**8,396**	4,850
Auditor's remuneration		
– Audit services	**83**	76
– Audit-related services	**27**	15
– Non-audit services	**26**	21

Note:

(a) During the year ended 31 December 2018, the Group incurred expenses for the purpose of research and development of approximately RMB22,936 million (2017: RMB17,456 million), which comprised employee benefits expenses of RMB19,088 million (2017: RMB14,766 million).

No significant development expenses had been capitalised for the years ended 31 December 2018 and 2017.

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

9 FINANCE COSTS, NET

	2018 RMB'Million	2017 RMB'Million
Interest and related expenses	**4,898**	3,060
Exchange gains	**(229)**	(152)
	4,669	2,908

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

10 SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES

	2018 RMB'Million	2017 RMB'Million
Share of profit of associates (Note 20)	**1,301**	730
Share of profit of joint ventures (Note 21)	**186**	91
	1,487	821

11 TAXATION

(a) Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2018 and 2017.

(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 2018 and 2017.

11 TAXATION (Cont'd)

(a) Income tax expense (Cont'd)

(iii) PRC corporate income tax

PRC corporate income tax has been provided for at the applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the PRC for the years ended 31 December 2018 and 2017. The general PRC corporate income tax rate is 25% in 2018 and 2017.

Certain subsidiaries of the Group in the PRC 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 2018 and 2017. Moreover, according to the announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, a software enterprise that qualifies as a national key software enterprise is subject to a preferential corporate income tax rate of 10%.

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

(iv) Corporate income tax in other countries

Income tax on profit arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profit for the year at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

(v) Withholding tax

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

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

11 TAXATION (Cont'd)

(a) Income tax expense (Cont'd)

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

	2018	2017
	RMB'Million	RMB'Million
Current income tax	**15,091**	15,154
Deferred income tax (Note 27)	**(609)**	590
	14,482	15,744

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year (2017: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2018	2017
	RMB'Million	RMB'Million
Profit before income tax	**94,466**	88,215
Share of profit of associates and joint ventures	**(1,487)**	(821)
	92,979	87,394
Tax calculated at a tax rate of 25%	**23,245**	21,848
Effects of different tax rates applicable to different subsidiaries of the Group	**(14,668)**	(10,442)
Effects of tax holiday on assessable profit of certain subsidiaries	**(958)**	(715)
Income not subject to tax	**(43)**	(25)
Expenses not deductible for tax purposes	**1,434**	1,087
Withholding tax on earnings expected to be remitted by subsidiaries (Note 27)	**3,360**	3,150
Unrecognised deferred income tax assets	**2,378**	1,004
Others	**(266)**	(163)
Income tax expense	**14,482**	15,744

11 TAXATION (Cont'd)

(b) Value-added tax and other taxes

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

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

Note:

Effective from 1 May 2018, the 17% and 11% VAT rates applicable to certain goods and services have been reduced to 16% and 10%, respectively.

12 EARNINGS PER SHARE

(a) Basic

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

	2018	2017
Profit attributable to equity holders of the Company (RMB'Million)	**78,719**	71,510
Weighted average number of ordinary shares in issue (million shares)	**9,444**	9,411
Basic EPS (RMB per share)	**8.336**	7.598

(b) Diluted

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

12 EARNINGS PER SHARE (Cont'd)

(b) Diluted (Cont'd)

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the years ended 31 December 2018 and 2017, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted EPS.

	2018	2017
Profit attributable to equity holders of the Company (RMB'Million)	**78,719**	71,510
Weighted average number of ordinary shares in issue (million shares)	**9,444**	9,411
Adjustments for share options and awarded shares (million shares)	**124**	125
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	**9,568**	9,536
Diluted EPS (RMB per share)	**8.228**	7.499

13 EMPLOYEE BENEFITS EXPENSES

	2018	2017
	RMB'Million	RMB'Million
Wages, salaries and bonuses	**28,236**	24,194
Contributions to pension plans (Note)	**2,553**	1,934
Share-based compensation expenses	**7,900**	6,253
Welfare, medical and other expenses (Note)	**3,355**	2,400
Training expenses	**109**	85
	42,153	34,866

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended 31 December 2018 and 2017 are listed below:

	Percentage
Pension insurance	12.0 ~ 20.0%
Medical insurance	5.2 ~ 11.5%
Unemployment insurance	0.5 ~ 1.5%
Housing fund	10.0 ~ 12.0%

(a) Senior management's emoluments

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

	2018	2017
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**329,721**	285,322
Contributions to pension plans	**874**	891
Share-based compensation expenses	**1,555,671**	1,174,316
	1,886,266	1,460,529

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

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

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

	Number of individuals	
	2018	2017
Emolument bands		
HKD800,000 ~ HKD15,000,000	**1**	1
HKD40,000,001 ~ HKD65,000,000	**1**	2
HKD65,000,001 ~ HKD115,000,000	**4**	5
HKD115,000,001 ~ HKD165,000,000	**4**	2
HKD215,000,001 ~ HKD815,000,000	**2**	2

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2018 (2017: one). All of these individuals including that one director (Note 14(a)) have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2018 and 2017. The emoluments paid/payable to the remaining four (2017: four) individuals during the year were as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and bonuses	**393,071**	325,416
Contributions to pension plans	**11,872**	10,909
Share-based compensation expenses	**968,642**	805,807
Allowances and benefits in kind	**84**	39
	1,373,669	1,142,171

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

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

The emoluments of the above four individuals (2017: four) fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
HKD196,500,001 ~ HKD197,000,000	**2**	–
HKD228,500,001 ~ HKD229,000,000	**–**	2
HKD430,000,001 ~ HKD430,500,000	**–**	1
HKD477,500,001 ~ HKD478,000,000	**–**	1
HKD545,500,001 ~ HKD546,000,000	**1**	–
HKD628,000,001 ~ HKD628,500,000	**1**	–

14 BENEFITS AND INTERESTS OF DIRECTORS

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

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

During the year ended 31 December 2018:

Name of director	Fees RMB'000	Salaries and bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	1,235	37,469	118	–	20	38,842
Lau Chi Ping Martin	1,235	28,214	–	283,899	125	313,473
Iain Ferguson Bruce	964	–	–	3,892	–	4,856
Ian Charles Stone	964	–	–	4,262	–	5,226
Li Dong Sheng	701	–	–	2,131	–	2,832
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	876	–	–	2,325	–	3,201
	5,975	65,683	118	296,509	145	368,430

14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

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

During the year ended 31 December 2017:

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

Note:

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

(ii) During the year ended 31 December 2018, 3,215,800 options were granted to one executive director of the Company (2017: 5,250,000 options were granted to one executive director of the Company), and 39,500 awarded shares were granted to four independent non-executive directors of the Company (2017: 60,000 awarded shares were granted to four independent non-executive directors of the Company).

(iii) No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

(b) Directors' termination benefits

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

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

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

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

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

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

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

15 DIVIDENDS

The dividends amounting to RMB6,776 million (2017: RMB5,052 million) were paid during the year ended 31 December 2018.

A special dividend of approximately HKD250 million (equivalent to approximately RMB219 million) was declared in December 2018 to the shareholders of the Company by way of a distribution in respect of the separate listing of a non-wholly owned subsidiary on the New York Stock Exchange. Such dividend was subsequently paid by the Group in February 2019.

A final dividend in respect of the year ended 31 December 2018 of HKD1.00 per share (2017: HKD0.88 per share) was proposed pursuant to a resolution passed by the Board on 21 March 2019 and subject to the approval of the shareholders at the annual general meeting of the Company to be held on 15 May 2019 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2018						
Cost	8,852	28,504	1,136	41	2,090	40,623
Accumulated depreciation and impairment	(1,021)	(14,337)	(659)	(24)	(1,023)	(17,064)
Currency translation differences	–	(26)	16	–	48	38
Net book amount	7,831	14,141	493	17	1,115	23,597
Year ended 31 December 2018						
Opening net book amount	7,831	14,141	493	17	1,115	23,597
Business combinations	–	2	3	1	3	9
Additions	457	18,716	255	3	383	19,814
Disposals	(2)	(25)	(1)	–	(2)	(30)
Depreciation	(650)	(7,322)	(172)	(3)	(249)	(8,396)
Currency translation differences	(1)	69	(3)	–	32	97
Closing net book amount	7,635	25,581	575	18	1,282	35,091
At 31 December 2018						
Cost	9,313	44,835	1,370	44	2,443	58,005
Accumulated depreciation and impairment	(1,677)	(19,297)	(808)	(26)	(1,241)	(23,049)
Currency translation differences	(1)	43	13	–	80	135
Net book amount	7,635	25,581	575	18	1,282	35,091

16 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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

During the year ended 31 December 2018, depreciation of RMB7,030 million (2017: RMB3,892 million), RMB153 million (2017: RMB134 million) and RMB1,213 million (2017: RMB824 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

17 CONSTRUCTION IN PROGRESS

	2018	2017
	RMB'Million	RMB'Million
Opening net book amount	**3,163**	4,674
Additions	**2,809**	3,204
Transfer to property, plant and equipment	**(1,094)**	(4,682)
Transfer to investment properties	**–**	(31)
Currency translation differences	**1**	(2)
Closing net book amount	**4,879**	3,163

As at 31 December 2018, construction in progress mainly comprised office buildings and data centres under construction located in the PRC.

18 LAND USE RIGHTS

	2018	2017
	RMB'Million	RMB'Million
Opening net book amount	**5,111**	5,174
Additions	**2,348**	46
Amortisation	**(353)**	(109)
Closing net book amount	**7,106**	5,111

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 37 to 50 years.

19 INTANGIBLE ASSETS

	Goodwill RMB'Million	Computer software and technology RMB'Million	Game licences RMB'Million	Licensed online contents RMB'Million	Copyrights RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2018							
Cost	24,143	2,947	2,759	33,549	1,066	3,225	67,689
Accumulated amortisation and impairment	(564)	(1,437)	(1,441)	(21,961)	(747)	(1,277)	(27,427)
Currency translation differences	29	(6)	16	(18)	8	(25)	4
Net book amount	23,608	1,504	1,334	11,570	327	1,923	40,266
Year ended 31 December 2018							
Opening net book amount	23,608	1,504	1,334	11,570	327	1,923	40,266
Business combinations	9,587	454	–	420	–	1,440	11,901
Additions	–	522	165	30,808	345	392	32,232
Disposals	–	–	(44)	(1,156)	(21)	(29)	(1,250)
Amortisation	–	(457)	(402)	(24,112)	(155)	(490)	(25,616)
Impairment provision	(784)	(187)	–	–	(1)	(209)	(1,181)
Currency translation differences	194	14	1	74	2	13	298
Closing net book amount	32,605	1,850	1,054	17,604	497	3,040	56,650
At 31 December 2018							
Cost	33,730	3,902	1,496	51,254	1,370	4,971	96,723
Accumulated amortisation and impairment	(1,348)	(2,060)	(459)	(33,706)	(883)	(1,919)	(40,375)
Currency translation differences	223	8	17	56	10	(12)	302
Net book amount	32,605	1,850	1,054	17,604	497	3,040	56,650

19 INTANGIBLE ASSETS (Cont'd)

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

19 INTANGIBLE ASSETS (Cont'd)

During the year ended 31 December 2018, amortisation of RMB24,698 million (2017: RMB17,837 million) and RMB918 million (2017: RMB785 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2018, impairment losses of RMB1,181 million (2017: RMB239 million) on goodwill and other intangible assets were charged to the consolidated income statement under "Other gains/(losses), net", resulting from revisions of financial/business outlook and changes in the market environment of the underlying business.

Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB25,672 million (31 December 2017: RMB23,608 million) and Others segment with RMB6,933 million (31 December 2017: Nil). The Group carries out its impairment testing on goodwill by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts. For the purpose of goodwill impairment review, the recoverable amount of a CGU (group of CGUs) is the higher of its value in use and fair value less costs of disposal.

The key assumptions used for the calculation of the recoverable amounts of the CGUs under impairment testing were as follows:

For goodwill attributable to the Group's online music business, online literature business and television series and film production business, value in use was determined using discounted cash flows calculations which derived from the five-year financial projections plus a terminal value related to cash flows beyond the projection period extrapolated using an estimated terminal growth rate of not more than 5% (2017: not more than 5%). Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. Pre-tax discount rates ranging from 15% to 25% (2017: 20% to 25%) were applied in the discounted cash flows calculations, which reflected assessments of time value and the specific risks relating to the respective industries.

For goodwill attributable to the Group's online game business, fair value less costs of disposal was determined based on ratios of EV (enterprise value) divided by EBITDA (earnings before interest, tax, depreciation and amortization) of several comparable public companies (ranging with 11-21x) (2017: ranging with 16-23x) multiplied by the EBITDA of the related CGU (group of CGUs) and discounted for the lack of marketability at a range of 10% to 20% (2017: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks.

When determining the recoverable amounts, management has not identified reasonably possible change in key assumptions that could cause the CGU's (group of CGUs') carrying amount to exceed the recoverable amount.

20 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	**130,633**	60,935
– Unlisted entities	**88,582**	52,844
	219,215	113,779

	2018	2017
	RMB'Million	RMB'Million
At beginning of the year	**113,779**	70,042
Additions (Note (a))	**40,918**	19,122
Transfers (Note (b))	**71,593**	20,825
Deemed disposal gains (Note 7(c))	**1,661**	9,892
Share of profit of associates (Note 10)	**1,301**	730
Share of other comprehensive income of associates	**24**	907
Share of other changes in net assets of associates	**2,861**	–
Impairment provision (Note (c))	**(14,069)**	(1,277)
Dividends	**(908)**	(312)
Disposals	**(725)**	(253)
Currency translation differences	**2,780**	(5,897)
At end of the year	**219,215**	113,779

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Note:

(a) During the year ended 31 December 2018, the Group's additions to investments in associates mainly comprised the following:

(i) an additional investment in an eCommerce company in the PRC of approximately RMB7,456 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 17% on an outstanding basis;

(ii) an additional investment in a media and entertainment company in the PRC of approximately RMB4,800 million which was previously recognised as FVPL. Subsequently, such investment of approximately RMB3,461 million was transferred to investment in a subsidiary through an acquisition made by a non-wholly owned subsidiary (Note 40(a));

(iii) an additional investment in a media and entertainment company in the PRC of approximately RMB3,998 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 43% on an outstanding basis;

(iv) an new investment in an online game company in the PRC of approximately RMB2,985 million to subscribe for approximately 12% of its equity interests on an outstanding basis;

(v) subscription of certain additional shares of a leading eCommerce platform for services in the PRC upon its IPO of approximately RMB2,757 million. Immediately before its IPO, the Group's investment in this investee company of approximately RMB48,173 million was classified as FVPL (Note 20(b)), and subsequently transferred to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares with board representation upon its IPO. As at 31 December 2018, the Group's equity interests in this investee company are approximately 19% on an outstanding basis;

(vi) an investment in an investment bank in the PRC of approximately RMB2,316 million to subscribe for approximately 5% of its equity interests on an outstanding basis; and

(vii) new investments in other associates and additional investments in existing associates, with an aggregate amount of approximately RMB16,606 million. These associates are principally engaged in online games, smart retails, technology and other Internet-related business.

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(b) During the year ended 31 December 2018, transfers comprised of associates achieved in stages of an aggregate amount of approximately RMB75,931 million, and associates transferred to financial instruments or subsidiaries of an aggregate amount of approximately RMB4,338 million. In addition to the transfer described in Note 20(a) (v) and Note 23(a) (iii), the transfers in relation to associates achieved in stages mainly include:

(i) an acquisition of approximately 4% in a commercial property company in the PRC at a consideration of approximately RMB10,266 million was carried out in certain tranches and completed in September 2018. The board representation was effective upon the completion of final tranche and the investment was transferred from FVPL accordingly;

(ii) an investment in an Indian eCommerce company of approximately RMB5,386 million was transferred from FVPL, due to certain contractual rights attached to this investment having been changed;

(iii) the Group transferred several investments from FVPL to investments in associates at an aggregate amount of approximately RMB5,426 million upon the conversion of the redeemable instruments or preferred shares into ordinary shares upon their IPOs, mainly comprising investee companies that are principally engaged in automotive industry; and

(iv) the Group also transferred several other investments from FVPL to investments in associates at an aggregate amount of approximately RMB2,009 million as a result of obtaining board representation.

(c) Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indications, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use.

In respect of the recoverable amount using value in use, the discounted cash flows calculations were based on cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rate, profit margins and discount rate. The pre-tax discount rates adopted range from 15% to 20%. In respect of the recoverable amount based on fair value less costs of disposal, except for those listed associates using their respective market prices, the fair value less costs of disposal was calculated using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

As a result, the Group made an aggregate impairment provision of RMB14,069 million (2017: RMB1,277 million) against the carrying amounts of certain investments in associates during the year ended 31 December 2018, which includes impairment loss of approximately RMB15,684 million recognised and approximately RMB1,615 million reversed. The impairment losses mainly resulted from revisions of financial/business outlook of the associates and changes in the market environment of the underlying business.

(d) The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.

20 INVESTMENTS IN ASSOCIATES (Cont'd)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of our stakes in the associates which are listed entities, are shown in aggregate as follows:

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	Profit/ (loss) from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive income/(loss) RMB'Million	Fair value of stakes in listed associates as at 31 December RMB'Million
2018							
Listed entities	**210,311**	**79,678**	**126,027**	**(3,337)**	**25**	**(3,312)**	**187,339**
Non-listed entities	**225,799**	**137,217**	**47,081**	**4,638**	**(1)**	**4,637**	
	436,110	**216,895**	**173,108**	**1,301**	**24**	**1,325**	
2017							
Listed entities	103,999	43,064	84,022	505	845	1,350	156,968
Non-listed entities	128,028	75,184	25,659	225	62	287	
	232,027	118,248	109,681	730	907	1,637	

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and associates with shareholding over 50%, with total carrying amounts of RMB149,175 million and RMB24,948 million as at 31 December 2018, respectively (31 December 2017: RMB56,768 million and RMB18,836 million, respectively). Management determined that it has significant influence thereon through the board representation or other arrangements made, and it has no control or joint control over such investees as the Group has no power to direct relevant activities due to other arrangements made. Consequently, these investments have been classified as associates.

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Particulars of a material associate of the Group, as determined by the directors, are set out below:

Name of entity	Place of incorporation	Interest held indirectly	Principal activities/place of operation
Meituan Dianping	PRC	19.06%	eCommerce platform for services/the PRC

Except Meituan Dianping, the directors of the Company considered that there is no other individual investment which was determined as a material associate.

Set out below are the summarised financial information of Meituan Dianping extracted from its financial statements prepared under IFRS.

	As at 31 December 2018 RMB'Million
Summarised consolidated balance sheet	
Current assets	**73,150**
Non-current assets	**47,512**
Current liabilities	**31,825**
Non-current liabilities	**2,327**
Total equity	**86,510**
Reconciliation to carrying amounts:	
Net assets	**86,510**
Group's share in %	**19.06%**
Group's share in RMB	**16,489**
Goodwill and others	**33,756**
Carrying amount	**50,245**

20 INVESTMENTS IN ASSOCIATES (Cont'd)

As at 31 December 2018, the fair value of the investment in Meituan Dianping which is a listed entity was RMB40,261 million.

There were no material contingent liabilities relating to the Group's interests in the associates.

Transactions with associates

During the year ended 31 December 2018, the Group had undertaken transactions relating to provision of FinTech services, online traffic, online advertising and other online services to certain associates (including Meituan Dianping), under but not limited to certain co-operation arrangements. The revenues recorded by the Group from the aforesaid co-operation arrangements during the years ended 31 December 2018 and 2017 were considered to be insignificant.

21 INVESTMENTS IN JOINT VENTURES

As at 31 December 2018, the Group's investments in joint ventures of RMB8,575 million (31 December 2017: RMB7,826 million) mainly comprised a special purpose vehicle of which we have a majority stake therein for the investment in one of the telecommunication carriers in the PRC and other joint venture initiatives in new retail and entertainment-related businesses.

Share of profit amounting to RMB186 million was recognised during the year ended 31 December 2018 (2017: RMB91 million) (Note 10).

During the year ended 31 December 2018, the Group made an aggregate impairment provision of RMB2,328 million (2017: Nil) against the carrying amounts of the investments in joint ventures, based on the respective assessed recoverable amount.

22 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2018, the financial instruments of the Group is analysed as follows:

	As at 31 December	
	2018	2017
Financial assets	**RMB'Million**	RMB'Million
Financial assets at amortised cost:		
Deposits and other receivables (Note 25)	**10,757**	9,486
Term deposits (Note 28)	**62,918**	42,089
Accounts receivable (Note 29)	**28,427**	16,549
Cash and cash equivalents (Note 30(a))	**97,814**	105,697
Restricted cash (Note 30(b))	**2,590**	1,606
RCPS	**–**	22,976
FVPL (Note 23)	**97,877**	–
FVOCI (Note 24)	**43,519**	–
OFA (Note 26)	**2,032**	5,624
AFS	**–**	127,218
	345,934	331,245
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings (Note 34)	**114,271**	97,790
Notes payable (Note 35)	**65,018**	34,115
Long-term payables (Note 36)	**4,797**	3,862
Accounts payable (Note 38)	**73,735**	50,085
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 39)	**16,841**	15,566
Other financial liabilities	**4,506**	2,154
	279,168	203,572

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

	As at 31 December 2018 RMB'Million
Included in non-current assets:	
Investments in listed entities	
– Japan	**3,360**
– United Kingdom	**2,613**
– United States	**1,442**
– Sweden	**539**
– Mainland China	**537**
– Hong Kong	**398**
– South Korea	**234**
	9,123
Investments in unlisted entities	**78,234**
Others	**4,345**
	91,702
Included in current assets:	
Treasury investments and others	**6,175**
	97,877

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

Movement of FVPL is analysed as follows:

	2018 RMB'Million
At beginning of the year	**–**
Adjustment on adoption of IFRS 9 (Note 2.2(a))	**95,497**
Additions (Note (a))	**60,807**
Transfers (Note (b))	**(78,816)**
Changes in fair value (Note 7(a))	**28,738**
Disposals (Note (c))	**(14,805)**
Currency translation differences	**6,456**
At end of the year	**97,877**

Note:

(a) During the year ended 31 December 2018, the Group's additions to FVPL mainly comprised the following:

(i) an investment in a commercial property company in the PRC which was carried out in certain tranches and completed in September 2018 as detailed in Note 20(b) (i);

(ii) an additional investment in a real estate O2O platform of approximately RMB3,478 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 7% on an outstanding basis;

(iii) an investment in a media and entertainment company of approximately RMB2,922 million to subscribe for approximately 35% of its equity interests in form of preferred shares, on an outstanding basis. Immediately before its IPO, the Group's investment in this investee company of approximately RMB4,671 million was classified as FVPL and subsequently transferred to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares upon its IPO. As at 31 December 2018, the Group's equity interests in this investee company are approximately 32% on an outstanding basis;

(iv) additional equity interests obtained in a disposal of the equity interests in an investee company, to another investee company of the Group at a total consideration of approximately USD551 million (equivalent to approximately RMB3,481 million) comprised of cash and its equity interests. The acquirer is principally engaged in the provision of Internet-related services, and the investment in this acquirer was reclassified to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares with board representation upon its IPO as described in Note 20(a) (v) above;

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

Note: (Cont'd)

(a) (Cont'd)

(v) an additional investment in an Asian online game company of approximately RMB2,799 million. Subsequent to the additional investment, the Group obtained the board representation and the investment was transferred to investment in an associate accordingly;

(vi) an additional investment in a media and entertainment company of approximately RMB2,536 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 14% on an outstanding basis; and

(vii) new investments and additional investments with an aggregate amounts of approximately RMB36,263 million in listed and unlisted entities mainly operated in the United States, the PRC and other Asian countries. These companies are principally engaged in online games, entertainment, technology and other Internet-related business.

(b) During the year ended 31 December 2018, in addition to the transfers of FVPL to investments in associates with an aggregate amount of approximately RMB75,931 million described in Note 20(b) above, the transfers mainly include:

(i) the Group designated certain investments with an aggregate amount of approximately RMB3,577 million as FVOCI upon their IPOs, and these investments were previously recorded as FVPL due to the form of redeemable instruments or preferred shares; and

(ii) the Group also transferred certain investments with an aggregate amount of approximately RMB692 million from investments in associates to FVPL as a result of changes in nature of these investments.

(c) During the year ended 31 December 2018, the Group disposed of certain investments with an aggregate amount of RMB14,805 million, which are mainly engaged in the provision of Internet-related services.

(d) During the year ended 31 December 2018, the Group made a large number of individual investments recognised as FVPL, but none of them was significant enough to trigger the disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time when the Group made such investments.

(e) Management has assessed the level of influence that the Group exercises on certain FVPL with shareholding exceeding 20%. Since these investments are either held in form of redeemable instruments or interests in limited life partnership without significant influence, these investments have been classified as FVPL.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

	As at 31 December 2018 RMB'Million
Equity investments in listed entities	
– United States	**33,120**
– Mainland China	**5,365**
– France	**3,093**
	41,578
Others	**1,941**
	43,519

Movement of FVOCI is analysed as follows:

	2018 RMB'Million
At beginning of the year	**–**
Adjustment on adoption of IFRS 9 (Note 2.2(a))	**58,515**
Additions (Note (a))	**17,689**
Transfers (Note 23(b))	**3,577**
Changes in fair value	**(16,578)**
Disposals (Note (b))	**(22,200)**
Currency translation differences	**2,516**
At end of the year	**43,519**

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Cont'd)

Note:

(a) During the year ended 31 December 2018, the Group's additions to FVOCI mainly comprised the following:

(i) a new investment in a retail company in the PRC of approximately RMB4,216 million to acquire approximately 5% of its equity interests on an outstanding basis;

(ii) an additional investment in an Internet-related company in the United States of approximately RMB3,712 million to further acquire approximately 3% of its equity interests on an outstanding basis;

(iii) a new investment in an online game company in France of approximately RMB2,900 million, to acquire approximately 5% of its equity interests on an outstanding basis;

(iv) an additional investment in a media and entertainment company listed on the New York Stock Exchange of approximately RMB2,508 million, to further acquire certain equity interests;

(v) an additional investment in a media and entertainment company in the PRC of approximately RMB2,191 million, to acquire approximately 7% of its equity interests on an outstanding basis; and

(vi) certain new investments and additional investments with an aggregate amount of approximately RMB2,162 million, most of which are principally engaged in technology services and operate in the PRC.

(b) During the year ended 31 December 2018, the Group partially disposed of certain listed investments, with total gains of approximately RMB9,561 million on disposals of FVOCI transferred from other reserves to retained earnings.

25 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media contents and game licences	**13,652**	7,031
Loans to investees and investees' shareholders (Note (a))	**3,864**	2,058
Running royalty fees for online games (Note (b))	**99**	149
Prepayments for capital investments in investees	**619**	34
Others	**3,297**	1,901
	21,531	11,173
Included in current assets:		
Prepayments and prepaid expenses	**7,532**	6,681
Running royalty fees for online games (Note (b))	**5,230**	4,095
Interest receivables	**1,697**	2,703
Refundable value-added tax	**915**	579
Loans to investees and investees' shareholders (Note (a))	**225**	521
Rental deposits and other deposits	**693**	220
Dividend and other investment-related receivables	**338**	222
Others	**1,863**	2,089
	18,493	17,110
	40,024	28,283

Note:

(a) As at 31 December 2018, the balances of loans to investees and investees' shareholders are mainly repayable within a period of one to five years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 12.0% per annum (31 December 2017: not higher than 8.0% per annum).

(b) Running royalty fees for online games comprises of prepaid royalty fees, unamortised running royalty fees and deferred Online Service Fees.

As at 31 December 2018, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax), were approximate to their fair values. Deposits and other assets were neither past due nor impaired.

26 OTHER FINANCIAL ASSETS

Other financial assets were measured at their fair values.

Included in non-current assets:

As at 31 December 2018, the Group's non-current other financial assets comprised interest rate swap contracts of RMB1,693 million for interest rate hedging purpose, which swap the floating interest rates into fixed interest rates. The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts were USD11,311 million (equivalent to approximately RMB77,630 million) (31 December 2017: USD10,741 million (equivalent to approximately RMB70,184 million)). These interest rate swap contracts were qualified for hedge accounting. (31 December 2017: the Group's non-current other financial assets also included the embedded derivatives bifurcated from their host contracts which mainly comprised the conversion options bifurcated from their corresponding host components that were classified as AFS and investments in redeemable instruments of associates of RMB3,818 million.)

Included in current assets:

As at 31 December 2018, the Group's current other financial assets mainly comprised call option rights held by the Group to acquire additional equity interests in an investee company of the Group, amounting to RMB312 million (31 December 2017: RMB465 million).

27 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

There was no offsetting of deferred income tax assets and liabilities in 2018 and 2017.

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	**7,216**	4,510
– to be recovered within 12 months	**8,539**	5,283
	15,755	9,793
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(9,834)**	(5,583)
– to be recovered within 12 months	**(1,130)**	(392)
	(10,964)	(5,975)

The movements of the deferred income tax assets/liabilities account were as follows:

	2018	2017
	RMB'Million	RMB'Million
At beginning of the year	**3,818**	1,880
Credited/(charged) to consolidated income statement (Note 11)	**609**	(590)
Withholding tax paid	**1,773**	2,451
Credited to consolidated statement of changes in equity	**187**	164
Business combinations	**(501)**	(21)
Other additions	**(986)**	–
Currency translation differences	**(109)**	(66)
At end of the year	**4,791**	3,818

27 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred income tax assets were as follows:

	Deferred income tax assets on temporary differences arising from				
	Accelerated amortisation of intangible assets RMB'Million	Tax losses RMB'Million (Note)	Accrued expenses RMB'Million	Share-based payments and others RMB'Million	Total RMB'Million
At 1 January 2018	**1,902**	**96**	**5,565**	**2,230**	**9,793**
Business combinations	**–**	**–**	**–**	**62**	**62**
Credited/(charged) to consolidated income statement	**2,502**	**(5)**	**2,513**	**703**	**5,713**
Credited to consolidated statement of changes in equity	**–**	**–**	**–**	**170**	**170**
Currency translation differences	**–**	**–**	**–**	**17**	**17**
At 31 December 2018	**4,404**	**91**	**8,078**	**3,182**	**15,755**
At 1 January 2017	642	189	3,661	2,541	7,033
Credited/(charged) to consolidated income statement	1,260	(93)	1,904	(275)	2,796
Credited to consolidated statement of changes in equity	–	–	–	46	46
Currency translation differences	–	–	–	(82)	(82)
At 31 December 2017	1,902	96	5,565	2,230	9,793

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2018, the Group did not recognise deferred income tax assets of RMB1,351 million (31 December 2017: RMB1,129 million) in respect of cumulative tax losses amounting to RMB6,277 million (31 December 2017: RMB4,997 million). These tax losses will expire from 2019 to 2023.

27 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred income tax liabilities were as follows:

	Deferred income tax liabilities on temporary differences arising from						
	Intangible assets acquired in business combinations RMB'Million	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'Million	Change in fair value of FVPL and FVOCI (2017: AFS) RMB'Million	Deemed disposals of investees RMB'Million	Accelerated tax depreciation RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2018	**(506)**	**(4,075)**	**(151)**	**(779)**	**–**	**(464)**	**(5,975)**
Business combinations	**(563)**	**–**	**–**	**–**	**–**	**–**	**(563)**
Credited/(charged) to consolidated income statement	**178**	**(3,360)**	**(75)**	**(139)**	**(1,634)**	**(74)**	**(5,104)**
Withholding tax paid	**–**	**1,773**	**–**	**–**	**–**	**–**	**1,773**
Credited to consolidated statement of changes in equity	**–**	**–**	**17**	**–**	**–**	**–**	**17**
Other additions	**–**	**–**	**(986)**	**–**	**–**	**–**	**(986)**
Currency translation differences	**(1)**	**(6)**	**(104)**	**(1)**	**–**	**(14)**	**(126)**
At 31 December 2018	**(892)**	**(5,668)**	**(1,299)**	**(919)**	**(1,634)**	**(552)**	**(10,964)**
At 1 January 2017	(607)	(3,391)	(269)	(425)	–	(461)	(5,153)
Business combinations	(21)	–	–	–	–	–	(21)
Credited/(charged) to consolidated income statement	121	(3,150)	–	(354)	–	(3)	(3,386)
Withholding tax paid	–	2,451	–	–	–	–	2,451
Credited to consolidated statement of changes in equity	–	–	118	–	–	–	118
Currency translation differences	1	15	–	–	–	–	16
At 31 December 2017	(506)	(4,075)	(151)	(779)	–	(464)	(5,975)

As at 31 December 2018, the Group recognised the relevant deferred income tax liabilities of RMB5,668 million (31 December 2017: RMB4,075 million) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB13,685 million (31 December 2017: RMB32,213 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

28 TERM DEPOSITS

An analysis of the Group's term deposits by currencies are as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	**–**	5,358
Other currencies	**–**	7
	–	5,365
Included in current assets:		
RMB term deposits	**55,180**	30,701
USD term deposits	**6,349**	4,187
Other currencies	**1,389**	1,836
	62,918	36,724
	62,918	42,089

The effective interest rate for the term deposits of the Group with initial terms of over three months during the year ended 31 December 2018 was 4.08% (2017: 3.86%).

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2018, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.

29 ACCOUNTS RECEIVABLE

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Accounts receivable	**29,784**	17,429
Loss allowance	**(1,357)**	(880)
	28,427	16,549

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

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
0 ~ 30 days	**11,200**	4,399
31 ~ 60 days	**7,695**	6,394
61 ~ 90 days	**4,201**	2,259
Over 90 days	**5,331**	3,497
	28,427	16,549

Majority of the Group's accounts receivable were denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Online advertising customers and agencies	**11,944**	8,076
Content production related customers	**5,400**	2,162
FinTech and cloud customers	**4,260**	1,716
Third party platform providers	**3,877**	3,140
Others	**2,946**	1,455
	28,427	16,549

29 ACCOUNTS RECEIVABLE (Cont'd)

Some online advertising customers and agencies are usually granted with a credit period within 90 days after full execution of the contracted advertisement orders. 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.

As of 31 December 2017, impairment provision was recognised after assessment of the financial condition and credit quality with reference to the past history. Beginning from 1 January 2018, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The historical observed default rates are updated and changes in the forward-looking estimates are analysed at year end. For the year ended 31 December 2018 and 2017, loss allowance made against the gross amounts of accounts receivable were not significant, and provision matrix is not presented.

As at 31 December 2018, the carrying amounts of accounts receivable approximated their fair values.

30 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Bank balances and cash	**38,696**	48,278
Term deposits and highly liquid investments with initial terms within three months	**59,118**	57,419
	97,814	105,697

The effective interest rate of the term deposits of the Group with initial terms within three months during the year ended 31 December 2018 was 3.59% (2017: 2.42%).

Approximately RMB31,015 million (31 December 2017: RMB54,894 million) and RMB3,349 million (31 December 2017: RMB11,740 million) of the total balance of the Group's cash and cash equivalents was denominated in RMB and placed with banks in Mainland China and Hong Kong, respectively.

(b) Restricted cash

As at 31 December 2018, restricted deposits held at bank of RMB2,590 million (31 December 2017: RMB1,606 million) were mainly denominated in RMB.

31 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

As at 31 December 2018 and 2017, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

	Number of issued and fully paid ordinary shares*	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2018	**9,499,056,887**	**–**	**22,204**	**(3,970)**	**18,234**
Employee share option schemes:					
– value of employee services	**–**	**–**	**1,983**	**–**	**1,983**
– shares issued (Note (a))	**6,891,249**	**–**	**525**	**–**	**525**
Employee share award schemes:					
– value of employee services	**–**	**–**	**5,022**	**–**	**5,022**
– shares withheld for share award schemes (Note (b))	**–**	**–**	**–**	**(2,187)**	**(2,187)**
– shares allotted for share award schemes (Note (c))	**17,206,955**	**–**	**–**	**–**	**–**
– shares vested from share award schemes and transferred to the grantees (Note (d))	**–**	**–**	**(1,984)**	**1,984**	**–**
Repurchase and cancellation of shares (Note (e))	**(2,848,000)**	**–**	**(783)**	**–**	**(783)**
Acquisition of additional equity interests in non-wholly owned subsidiaries	**–**	**–**	**327**	**–**	**327**
At 31 December 2018	**9,520,307,091**	**–**	**27,294**	**(4,173)**	**23,121**
At 1 January 2017	9,477,083,480	–	17,324	(3,136)	14,188
Employee share option schemes:					
– value of employee services	–	–	1,125	–	1,125
– shares issued (Note (a))	4,102,812	–	171	–	171
Employee share award schemes:					
– value of employee services	–	–	4,254	–	4,254
– shares withheld for share award schemes (Note (b))	–	–	–	(2,232)	(2,232)
– shares allotted for share award schemes (Note (c))	17,870,595	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(1,398)	1,398	–
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	728	–	728
At 31 December 2017	9,499,056,887	–	22,204	(3,970)	18,234

31 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (Cont'd)

* As at 31 December 2018, the total number of issued ordinary shares of the Company included 63,275,620 shares (31 December 2017: 70,675,181 shares) held under the Share Award Schemes.

Note:

(a) During the year ended 31 December 2018, 6,891,249 Post-IPO options (2017: 4,102,812 Post-IPO options) with exercise prices ranging from HKD31.70 to HKD272.36 (2017: HKD26.08 to HKD174.86) were exercised.

(b) During the year ended 31 December 2018, the Share Scheme Trust withheld 6,839,643 ordinary shares (2017: 9,303,028 ordinary shares) of the Company for an amount of approximately HKD2,550 million (equivalent to approximately RMB2,187 million) (2017: HKD2,606 million (equivalent to approximately RMB2,232 million)), which had been deducted from the equity.

(c) During the year ended 31 December 2018, the Company allotted 17,206,955 ordinary shares (2017: 17,870,595 ordinary shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the Share Award Schemes.

(d) During the year ended 31 December 2018, the Share Scheme Trust transferred 31,446,159 ordinary shares of the Company (2017: 38,573,979 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 33(b)).

(e) During the year ended 31 December 2018, the Company repurchased 2,848,000 of its own shares from the market which were subsequently cancelled. The shares were acquired at prices ranging from HKD265.20 to HKD333.40, with an average price of HKD311.38 per share.

32 OTHER RESERVES

	Capital reserves RMB'Million (Note (a))	AFS RMB'Million	FVOCI RMB'Million	Investments in associates and joint ventures RMB'Million	Currency translation differences RMB'Million	PRC statutory reserves RMB'Million (Note (b))	Share-based compensation reserves RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 31 December 2017, as previously reported	(2,999)	31,152	–	2,228	(3,464)	2,273	4,170	1,798	35,158
Adjustment on adoption of IFRS 9 (Note 2.2(a))	–	(31,152)	14,942	–	–	–	–	–	(16,210)
Balance at 1 January 2018	(2,999)	–	14,942	2,228	(3,464)	2,273	4,170	1,798	18,948
Transfer of gains on disposal of FVOCI to retained earnings (Note (d))	–	–	(9,561)	–	–	–	–	–	(9,561)
Share of other changes in net assets of associates	–	–	–	2,861	–	–	–	–	2,861
Value of employee services:									
– Employee share option schemes	–	–	–	–	–	–	63	–	63
– Employee share award schemes	–	–	–	–	–	–	466	–	466
Tax benefit from share-based payments of a subsidiary	–	–	–	–	–	–	148	–	148
Acquisition of additional equity interests in non-wholly owned subsidiaries	(877)	–	–	–	–	–	–	–	(877)
Transfer of equity interests of subsidiaries to non-controlling interests	(1,886)	–	–	–	–	–	–	–	(1,886)
Recognition of the financial liabilities in respect of the put option from business combination	(406)	–	–	–	–	–	–	–	(406)
Dilution of interests in subsidiaries (Note (e))	2,836	–	–	–	–	–	–	–	2,836
Profit appropriations to PRC statutory reserves	–	–	–	–	–	517	–	–	517
Net losses from changes in fair value of FVOCI	–	–	(16,095)	–	–	–	–	–	(16,095)
Share of other comprehensive income of associates and joint ventures	–	–	–	23	–	–	–	–	23
Currency translation differences	–	–	–	–	3,681	–	–	–	3,681
Other fair value gains, net	–	–	–	–	–	–	–	11	11
Balance at 31 December 2018	(3,332)	–	(10,714)	5,112	217	2,790	4,847	1,809	729

32 OTHER RESERVES (Cont'd)

	Capital reserves RMB'Million (Note (a))	AFS RMB'Million	Investments in associates and joint ventures RMB'Million	Currency translation differences RMB'Million	PRC statutory reserves RMB'Million (Note (b))	Share-based compensation reserves RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 1 January 2017	(6,430)	16,859	1,321	5,734	1,754	3,363	1,092	23,693
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	156	–	156
– Employee share award schemes	–	–	–	–	–	407	–	407
Tax benefit from share-based payments of a subsidiary	–	–	–	–	–	244	–	244
Acquisition of additional equity interests in non-wholly owned subsidiaries	(952)	–	–	–	–	–	–	(952)
Transfer of equity interests of subsidiaries to non-controlling interests	(2,045)	–	–	–	–	–	–	(2,045)
Lapse of put option granted to non-controlling interests	50	–	–	–	–	–	–	50
Dilution of interests in subsidiaries	6,378	–	–	–	–	–	–	6,378
Profit appropriations to PRC statutory reserves	–	–	–	–	519	–	–	519
Net gains from changes in fair value of AFS	–	16,854	–	–	–	–	–	16,854
Transfer to profit or loss upon disposal of AFS	–	(2,561)	–	–	–	–	–	(2,561)
Share of other comprehensive income of associates and joint ventures	–	–	907	–	–	–	–	907
Currency translation differences	–	–	–	(9,198)	–	–	–	(9,198)
Other fair value gains, net	–	–	–	–	–	–	706	706
Balance at 31 December 2017	(2,999)	31,152	2,228	(3,464)	2,273	4,170	1,798	35,158

32 OTHER RESERVES (Cont'd)

Note:

(a) The capital reserve mainly arises from transactions undertaken with non-controlling interests.

(b) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profit (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(c) Share-based compensation reserve arises from share option schemes and share award schemes adopted by the subsidiaries of the Group (Note 33(d)).

(d) The Group has elected to recognise changes in the fair value of certain investment in equity instruments in other comprehensive income, as explained in Note 2.16. These changes are accumulated with FVOCI reserve with equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

(e) During the year ended 31 December 2018, the dilution of interests in subsidiaries mainly comprised the following:

(i) a non-wholly owned subsidiary of the Group, Tencent Music Entertainment Group ("TME"), have undergone initial public offering by listing of certain of its new shares on the New York Stock Exchange with proceeds of approximately RMB3,520 million, and thus the Group's equity interest in TME was diluted. Given TME remains a subsidiary of the Group following the said initial public offering, this transaction was accounted for as transaction with non-controlling interest with a gain of RMB1,312 million directly recognised in equity; and

(ii) an equity transaction of a non-wholly owned subsidiary described in Note 7(d), which results in the transaction with non-controlling interests of approximately RMB1,121 million.

33 SHARE-BASED PAYMENTS

(a) Share option schemes

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

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

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

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(i) Movements in share options

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2018	**HKD179.90**	**55,510,248**	**HKD31.70**	**2,500,000**	**HKD273.80**	**9,155,860**	**67,166,108**
Granted	**–**	**–**	**–**	**–**	**HKD405.73**	**27,723,850**	**27,723,850**
Exercised	**HKD110.85**	**(3,966,835)**	**HKD31.70**	**(2,500,000)**	**HKD272.36**	**(424,414)**	**(6,891,249)**
Lapsed/forfeited	**HKD136.67**	**(44,403)**	**–**	**–**	**HKD298.36**	**(178,062)**	**(222,465)**
At 31 December 2018	**HKD185.25**	**51,499,010**	**–**	**–**	**HKD374.52**	**36,277,234**	**87,776,244**
Exercisable as at 31 December 2018	**HKD160.50**	**22,419,156**	**–**	**–**	**HKD274.86**	**1,760,025**	**24,179,181**
At 1 January 2017	HKD120.95	31,247,436	HKD31.70	2,500,000	–	–	33,747,436
Granted	HKD225.44	28,526,215	–	–	HKD273.79	9,219,035	37,745,250
Exercised	HKD49.05	(4,102,812)	–	–	–	–	(4,102,812)
Lapsed/forfeited	HKD142.65	(160,591)	–	–	HKD272.36	(63,175)	(223,766)
At 31 December 2017	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
Exercisable as at 31 December 2017	HKD118.70	13,152,006	HKD31.70	1,250,000	–	–	14,402,006

During the year ended 31 December 2018, 3,215,800 options were granted to an executive director of the Company (2017: 5,250,000 options were granted to an executive director of the Company).

As a result of the options exercised during the year ended 31 December 2018, 6,891,249 ordinary shares (2017: 4,102,812 ordinary shares) were issued by the Company (Note 31). The weighted average price of the shares at the time these options were exercised was HKD399.37 per share (equivalent to approximately RMB325.67 per share) (2017: HKD286.46 per share (equivalent to approximately RMB248.41 per share)).

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2018 and 2017 are as follows:

		Number of share options	
		31 December	31 December
Expiry Date	**Range of exercise price**	**2018**	2017
7 years commencing from the date of grant of options (Post-IPO Option Scheme II and Post-IPO Option Scheme IV)	HKD37.80~HKD49.76	**22,875**	1,633,050
	HKD112.30~HKD174.86	**23,504,535**	25,386,768
	HKD225.44~HKD272.36	**36,475,949**	37,556,725
	HKD354.00~HKD386.60	**5,191,480**	–
	HKD403.16~HKD444.20	**22,581,405**	89,565
		87,776,244	64,666,108
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD31.70	**–**	2,500,000
		87,776,244	67,166,108

The outstanding share options as of 31 December 2018 were divided into two to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from ten months to three years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

(iii) Fair value of options

The directors of the Company have used the Binomial Model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2018 was HKD127.43 per share (equivalent to approximately RMB103.46 per share) (2017: HKD71.30 per share (equivalent to approximately RMB62.86 per share)).

Other than the exercise price mentioned above, significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors in applying the Binomial Model, which are summarised as below.

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(iii) Fair value of options (Cont'd)

	2018	2017
Weighted average share price at the grant date	**HKD405.00**	HKD236.88
Risk free rate	**1.77%~2.27%**	1.39%~1.68%
Dividend yield	**0.24%~0.25%**	0.26%~0.34%
Expected volatility (Note)	**30.00%**	30.00%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

(b) Share award schemes

The Company has adopted two share award schemes (the "Share Award Schemes") as of 31 December 2018, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the years ended 31 December 2018 and 2017 are as follows:

	Number of awarded shares	
	2018	2017
At beginning of the year	**63,636,254**	86,365,812
Granted	**20,940,149**	19,071,975
Lapsed/forfeited	**(2,882,349)**	(3,227,554)
Vested and transferred	**(31,446,159)**	(38,573,979)
At end of the year	**50,247,895**	63,636,254
Vested but not transferred as at the end of the year	**45,432**	159,893

33 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes (Cont'd)

During the year ended 31 December 2018, 39,500 awarded shares were granted to four independent non-executive directors of the Company (2017: 60,000 awarded shares were granted to four independent non-executive directors of the Company).

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2018 was HKD374.32 per share (equivalent to approximately RMB316.30 per share) (2017: HKD274.02 per share (equivalent to approximately RMB238.37 per share)).

The outstanding awarded shares as of 31 December 2018 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from four months to three years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee investment schemes

For aligning the interests of key employees with the Group, the Group established six employees' investment plans in the form of limited liability partnerships in 2011, 2014, 2015, 2016 and 2017 (the "EIS") respectively. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to all the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the years ended 31 December 2018 and 2017 were insignificant to the Group.

33 SHARE-BASED PAYMENTS (Cont'd)

(d) Share options and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the respective board of directors of these subsidiaries at their sole discretion. The share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries ("Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that they would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2018, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be 88%~97% (31 December 2017: 88%~97%).

34 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	**70,938**	76,326
Non-current portion of long-term RMB bank borrowings,		
– unsecured (Note (a))	**11,189**	4,459
– secured (Note (a))	**–**	475
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	**5,310**	834
	87,437	82,094
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	**16,403**	1,307
HKD bank borrowings, unsecured (Note (b))	**3,368**	14,293
RMB bank borrowings, unsecured (Note (b))	**628**	–
Current portion of long-term USD bank borrowings, unsecured (Note (a))	**5,628**	66
Current portion of long-term RMB bank borrowings,		
– unsecured (Note (a))	**332**	30
– secured (Note (a))	**475**	–
	26,834	15,696
	114,271	97,790

34 BORROWINGS (Cont'd)

Note:

(a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD11,156 million (31 December 2017: USD11,691 million), RMB11,996 million (31 December 2017: RMB4,964 million) and HKD6,070 million (31 December 2017: HKD1,000 million), respectively. Applicable interest rates are at LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings, and interest rates of 4.18% ~ 9.00% for RMB bank borrowings (31 December 2017: LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 4.275% for RMB bank borrowings) per annum.

The long-term bank borrowings were repayable as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Within 1 year	**6,435**	96
Between 1 and 2 years	**18,640**	9,947
Between 2 and 5 years	**68,797**	66,201
More than 5 years	**–**	5,946
	93,872	82,190

(b) The aggregate principal amounts of short-term USD bank borrowings, short-term RMB bank borrowings and short-term HKD bank borrowings were USD2,390 million (31 December 2017: USD200 million), RMB628 million (31 December 2017: Nil) and HKD3,850 million (31 December 2017: HKD17,133 million), respectively. These short-term bank borrowings were carried at LIBOR/HIBOR + 0.50% ~ 0.55% or a fixed interest rate of 5.22% ~ 5.44% (31 December 2017: LIBOR/HIBOR + 0.50% ~ 0.55%) per annum.

During the year ended 31 December 2018, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2018 have been detailed in Note 26.

As at 31 December 2018, the carrying amounts of borrowings approximated their fair values.

35 NOTES PAYABLE

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	**48,501**	26,697
Non-current portion of long-term HKD notes payable	**2,797**	2,666
	51,298	29,363
Included in current liabilities:		
Current portion of long-term USD notes payable	**13,720**	3,919
Current portion of long-term HKD notes payable	**–**	833
	13,720	4,752
	65,018	34,115

The aggregate principal amounts of USD notes payable and HKD notes payable were USD9,100 million (31 December 2017: USD4,700 million) and HKD3,200 million (31 December 2017: HKD4,200 million), respectively. Applicable interest rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% (31 December 2017: 2.30% ~ 4.70%) per annum.

The notes payable were repayable as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Within 1 year	**13,720**	4,752
Between 1 and 2 years	**10,335**	13,044
Between 2 and 5 years	**10,258**	9,833
More than 5 years	**30,705**	6,486
	65,018	34,115

35 NOTES PAYABLE (Cont'd)

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

On 19 January 2018, the Company issued four tranches of senior notes under the Global Medium Term Note Programme with aggregate principal amounts of USD5 billion as set out below:

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

In March 2018, the notes payable with an aggregate principal amount of USD600 million issued in September 2012 reached their maturity and were repaid in full by the Group.

In September 2018, the notes payable with an aggregate principal amount of HKD1,000 million issued in September 2015 reached their maturity and were repaid in full by the Group.

As at 31 December 2018, the fair value of the notes payable amounted to RMB62,820 million (31 December 2017: RMB34,691 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.

36 LONG-TERM PAYABLES

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Purchase consideration payables for investee companies	**2,018**	336
Payables relating to media contents and running royalty fee for online games	**1,415**	2,597
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	**393**	225
Others	**971**	704
	4,797	3,862

37 OTHER FINANCIAL LIABILITIES

As at 31 December 2018, it mainly comprised of the contingent consideration in relation to the acquisition of equity interests from shareholders of an associate of the Group (Note 40).

38 ACCOUNTS PAYABLE

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

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
0 ~ 30 days	**56,506**	38,420
31 ~ 60 days	**6,264**	3,030
61 ~ 90 days	**1,557**	2,050
Over 90 days	**9,408**	6,585
	73,735	50,085

39 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Staff costs and welfare accruals	**15,929**	13,451
Selling and marketing expense accruals	**3,038**	4,414
General and administrative expenses accruals	**1,650**	1,149
Purchase consideration payables for investee companies	**1,277**	1,045
Purchase of construction related costs	**1,065**	1,463
Interests payable	**951**	410
Prepayments received from customers and others	**542**	416
Liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	**759**	–
Others (Note)	**8,101**	7,085
	33,312	29,433

Note:

Others primary consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.

40 BUSINESS COMBINATION

(a) Step-up acquisition of New Classics Media

On 31 October 2018 (the "Acquisition Date"), the Group's non-wholly owned subsidiary, China Literature Limited ("China Literature"), acquired entire equity interests in New Classic Media Holdings Limited ("New Classics Media"), an existing associate of the Group, which is engaged in the production and distribution of television series, web series and films in the PRC (the "Step-up Acquisition"). The investment in New Classics Media was initially accounted for as FVPL, and subsequently reclassified as an associate of the Group due to additional investments and board representation. Immediately before the Step-up Acquisition, the Group held 44.08% equity interests in New Classics Media (the "Previously Held Interests"). Upon completion of the Step-up Acquisition, the Group indirectly held approximately 56% equity interests in New Classics Media through China Literature and accounted for it as a subsidiary of the Group. The Group expects the acquisition of New Classics Media to further increase its market share in entertainment industry.

Goodwill of approximately RMB6,933 million was recognised as a result of the Step-up Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose. The Group chose to record the non-controlling equity interests in New Classics Media at fair value on Acquisition Date.

The following table summarises the purchase consideration, fair value of assets acquired, liabilities assumed and the non-controlling interest recognised as at the Acquisition Date.

40 BUSINESS COMBINATION (Cont'd)

(a) Step-up acquisition of New Classics Media (Cont'd)

	As at 31 October 2018 RMB'Million
Total consideration:	
Cash paid	**1,532**
Ordinary shares issued by China Literature	**1,431**
Contingent consideration (Note)	**3,301**
Fair value of the Previously Held Interests (Note 20(a) (ii))	**2,945**
	9,209
Non-controlling interests	**(4,070)**
Total consideration attributable to the Company's equity holders	**5,139**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**1,006**
Accounts receivable	**1,527**
Intangible assets arising from acquisition	**741**
Intangible assets and prepayments (mainly include television series and film rights)	**2,449**
Other assets	**608**
Deferred revenue and other payables and accruals	**(2,173)**
Borrowings	**(1,363)**
Other liabilities	**(290)**
Deferred income tax liabilities	**(231)**
Total identifiable net assets	**2,274**
Non-controlling interests	**(4,068)**
Goodwill	**6,933**
	5,139

40 BUSINESS COMBINATION (Cont'd)

(a) Step-up acquisition of New Classics Media (Cont'd)

Note:

Pursuant to the share purchase agreement, the consideration will be settled by a combination of cash and new shares paid and issued by China Literature and will be subject to the earn-out mechanism set forth in the share purchase agreement. "Monte Carlo Simulation Method" was used in this exercise to measure the value of the contingent consideration. The future net profit of New Classics Media was simulated in numerous scenarios based on the assumptions of growth rate and volatility of net profit of New Classics Media. For each scenario, the consideration to be paid in the form of cash and shares would be determined in accordance with the earn-out mechanism set out in the share purchase agreement. Such consideration was then discounted at a rate that reflects the associated risk of the payment to arrive the present value of consideration in a scenario. The value of contingent consideration was obtained by the average of the present value of considerations in these scenarios. As at 31 October 2018, other financial liabilities of approximately RMB3,301 million in relation to this arrangement was recognised in the Group's consolidated statement of financial position based on the earn-out mechanism.

The revenue and the results contributed by New Classics Media to the Group for the period since the Acquisition Date were insignificant. The Group's revenue and results for the year would not be materially different should the Step-up Acquisition have otherwise occured on 1 January 2018.

The financial impacts recorded as "Other gains, net" during the year ended 31 December 2018 for the difference between the fair value of the Previously Held Interests and the existing carrying amount of investment in an associate at the Acquisition Date were insignificant.

The related transaction costs of the Step-up Acquisition are not material to the Group's consolidated financial statements.

(b) Other business combination

During the year ended 31 December 2018, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions was approximately RMB3,077 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB1,426 million, RMB1,003 million and RMB2,654 million, respectively.

The revenue and the results contributed by these acquired subsidiaries for the period since respective acquisition date were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions had occurred on 1 January 2018.

The related transaction costs of these business combinations were not material to the Group's consolidated financial statements.

41 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash inflow from operating activities:

	2018	2017
	RMB'Million	RMB'Million
Profit for the year	**79,984**	72,471
Adjustments for:		
Income tax expense	**14,482**	15,744
Net gains on disposals and deemed disposals of investee companies	**(2,932)**	(13,518)
Dividend income	**(686)**	(1,713)
Depreciation of property, plant and equipment and investment properties	**8,423**	4,880
Amortisation of intangible assets and land use rights	**25,825**	18,731
Net losses on disposals of intangible assets and property, plant and equipment	**47**	24
Interest income	**(4,569)**	(3,940)
Equity-settled share-based compensation expenses	**7,869**	6,137
Other expenses in relation to equity transactions of an investee company	**1,519**	–
Share of profit of associates and joint ventures	**(1,487)**	(821)
Impairment provision for investments in associates, joint ventures (2017: investments in associates, joint ventures, AFS and RCPS)	**16,397**	2,555
Net fair value gains on FVPL and other financial instruments	**(29,757)**	(4,298)
Impairment of intangible assets	**1,181**	239
Exchange gains	**(228)**	(152)
Changes in working capital:		
Accounts receivable	**(10,302)**	(6,400)
Inventories	**(29)**	(39)
Prepayments, deposits and other receivables	**(4,050)**	(3,760)
Accounts payable	**22,955**	16,134
Other payables and accruals	**(3,154)**	8,422
Other tax liabilities	**(19)**	189
Deferred revenue	**(505)**	9,117
Cash generated from operating activities	**120,964**	120,002

41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Major non-cash transactions

Other than the transaction with non-controlling interests described in Note 32(e) and 40(a), there were no material non-cash transactions during the year ended 31 December 2018.

(c) Net (debt)/cash reconciliation

This section sets out an analysis of net cash/(debt) and the movements in net cash/(debt) for each of the years presented.

Net (debt)/cash	**As at 31 December**	
	2018	2017
	RMB'Million	RMB'Million
Cash and cash equivalents	**97,814**	105,697
Term deposits and others	**69,305**	42,540
Borrowings – repayable within one year	**(26,834)**	(15,696)
Borrowings – repayable after one year	**(87,437)**	(82,094)
Notes payable – repayable within one year	**(13,720)**	(4,752)
Notes payable – repayable after one year	**(51,298)**	(29,363)
Net (debt)/cash	**(12,170)**	16,332
Cash and cash equivalents, term deposits and others	**167,119**	148,237
Gross debt – fixed interest rates	**(74,910)**	(39,257)
Gross debt – floating interest rates	**(104,379)**	(92,648)
Net (debt)/cash	**(12,170)**	16,332

41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Net (debt)/cash reconciliation (Cont'd)

	Cash and cash equivalents RMB'Million	Term deposits and others RMB'Million	Borrowings due within 1 year RMB'Million	Borrowings due after 1 year RMB'Million	Notes payable due within 1 year RMB'Million	Notes payable due after 1 year RMB'Million	Total RMB'Million
Net cash as at 1 January 2018	**105,697**	**42,540**	**(15,696)**	**(82,094)**	**(4,752)**	**(29,363)**	**16,332**
Cash flows	**(10,090)**	**24,811**	**(2,724)**	**(7,237)**	**4,666**	**(32,547)**	**(23,121)**
Exchange impacts	**2,207**	**1,954**	**(1,559)**	**(3,598)**	**(957)**	**(2,011)**	**(3,964)**
Other non-cash movements	**–**	**–**	**(6,855)**	**5,492**	**(12,677)**	**12,623**	**(1,417)**
Net debt as at 31 December 2018	**97,814**	**69,305**	**(26,834)**	**(87,437)**	**(13,720)**	**(51,298)**	**(12,170)**
Net cash as at 1 January 2017	71,902	55,735	(12,278)	(57,549)	(3,466)	(36,204)	18,140
Cash flows	36,346	(13,179)	(3,698)	(28,764)	3,450	–	(5,845)
Exchange impacts	(2,551)	(16)	768	3,731	231	1,921	4,084
Other non-cash movements	–	–	(488)	488	(4,967)	4,920	(47)
Net cash as at 31 December 2017	105,697	42,540	(15,696)	(82,094)	(4,752)	(29,363)	16,332

42 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2018 and 2017 are analysed as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	**2,219**	273
Purchase of other property, plant and equipment	**357**	153
Capital investment in investees	**8,763**	3,027
	11,339	3,453

42 COMMITMENTS

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings and server custody leases, are as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**2,632**	1,027
Later than one year and not later than five years	**7,398**	1,056
Later than five years	**2,264**	970
	12,294	3,053

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media contents agreements are as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**7,260**	5,279
Later than one year and not later than five years	**8,332**	9,822
Later than five years	**2,279**	2,236
	17,871	17,337

43 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 20 (Transactions with associates), Note 25 (Loans to investees and investees' shareholders) and Note 33 (Share-based payments) to the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2018 and 2017, and no other material balances with related parties as at 31 December 2018 and 2017.

44 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2018 to the approval date of these financial statements by the Board of Directors on 21 March 2019.

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
ASSETS		
Non-current assets		
Intangible assets	**42**	41
Investments in subsidiaries	**60,770**	55,253
Contribution to Share Scheme Trust	**95**	43
	60,907	55,337
Current assets		
Amounts due from subsidiaries	**52,078**	8,725
Prepayments, deposits and other receivables	**6**	17
Cash and cash equivalents	**63**	7,919
	52,147	16,661
Total assets	**113,054**	71,998

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Cont'd)

(a) Financial position of the Company (Cont'd)

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	**–**	–
Share premium	**27,294**	22,204
Shares held for share award schemes	**(4,173)**	(3,970)
Other reserves (b)	**(179)**	(531)
Retained earnings (b)	**5,443**	8,371
Total equity	**28,385**	26,074
LIABILITIES		
Non-current liabilities		
Notes payable	**51,298**	29,363
Other financial liabilities	**1,164**	2,068
	52,462	31,431
Current liabilities		
Amounts due to subsidiaries	**17,454**	9,408
Other payables and accruals	**1,033**	333
Notes payable	**13,720**	4,752
	32,207	14,493
Total liabilities	**84,669**	45,924
Total equity and liabilities	**113,054**	71,998

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Cont'd)

(b) Reserve movement of the Company

	Retained earnings RMB'Million	Other reserves RMB'Million
At 1 January 2018	**8,371**	**(531)**
Profit for the year	**4,067**	**–**
Dividends paid relating to 2017	**(6,995)**	**–**
Currency translation differences	**–**	**352**
At 31 December 2018	**5,443**	**(179)**
At 1 January 2017	4,031	126
Profit for the year	9,392	–
Dividends paid relating to 2016	(5,052)	–
Currency translation differences	–	(657)
At 31 December 2017	8,371	(531)

46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2018:

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Computer	Established in the PRC, limited liability company	RMB65,000,000	100% (Note (a))	Provision of value-added services and Internet advertisement services in the PRC
Tencent Technology	Established in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	Development of softwares and provision of information technology services in the PRC
Shenzhen Shiji Kaixuan Technology Company Limited	Established in the PRC, limited liability company	RMB11,000,000	100% (Note (a))	Provision of Internet advertisement services in the PRC
Tencent Cyber (Tianjin) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Asset Management Limited	Established in BVI, limited liability company	USD100	100%	Asset management in Hong Kong
Tencent Technology (Beijing) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	Development and sale of softwares and provision of information technology services in the PRC
Nanjing Wang Dian Technology Company Limited	Established in the PRC, limited liability company	RMB10,290,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing BIZCOM Technology Company Limited	Established in the PRC, limited liability company	RMB1,216,500,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing Starsinhand Technology Company Limited	Established in the PRC, limited liability company	RMB10,000,000	100% (Note (a))	Provision of value-added services in the PRC

46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares in the PRC
Tencent Technology (Shanghai) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Chengdu) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD220,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Wuhan) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Cloud Computing (Beijing) Company Limited	Established in the PRC, limited liability company	RMB142,500,000	100% (Note (a))	Provision of information system integration services in the PRC
Morespark Limited	Established in Hong Kong, limited liability company	HKD1,000	100%	Investment holding and provision of online advertisement services in Hong Kong
Beijing Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC
Riot Games, Inc.	Established in the United States, limited liability company	USD1,306	100%	Development and operation of online games in the United States
China Literature	Established in the Cayman Islands, limited liability company	USD102,255	55.59%*	Provision of online literature services in the PRC
TME (Note (b))	Established in the Cayman Islands, limited liability company	USD269,025	50.08%*	Provision of online music entertainment services in the PRC

* on an outstanding basis

46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

Note:

(a) As described in Note 1, the Company does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.

(b) The directors of the Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarised financial information of these non-wholly owned subsidiaries is presented separately.

(c) All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary's undertakings held directly by the parent company do not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.

(d) Significant restrictions

As at 31 December 2018, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB86,468 million were held in Mainland China and they are subject to local exchange control and other financial and treasury regulations. The local exchange control, and other financial and treasury regulations provide for restrictions, on payment of dividends, share repurchase and offshore investments, other than through normal activities.

(e) Consolidation of structured entities

As mentioned in Note (a) above and Note 33(c), the Company has consolidated the operating entities within the Group without any legal interests and the EISs out of which wholly-owned subsidiaries of the Company act as general partner. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 33(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	**Principal activities**
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

During the year ended 31 December 2018, the Company contributed approximately RMB2,187 million (2017: RMB2,232 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.

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