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**Tencent 腾讯**  
**TENCENT HOLDINGS LIMITED**  
**騰訊控股有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 700)**

**ANNOUNCEMENT OF THE ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2018. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

**FINANCIAL PERFORMANCE HIGHLIGHTS**

	31 December 2018	Unaudited Three months ended			Quarter- on-quarter change
		31 December 2017	Year- on-year change	30 September 2018	
(RMB in millions, unless specified)					
Revenues	<b>84,896</b>	66,392	28%	80,595	5%
Gross profit	<b>35,152</b>	31,495	12%	35,480	-1%
Operating profit	<b>17,288</b>	25,724	-33%	27,861	-38%
Profit for the period	<b>14,026</b>	21,622	-35%	23,405	-40%
Profit attributable to equity holders of the Company	<b>14,229</b>	20,797	-32%	23,333	-39%
Non-GAAP profit attributable to equity holders of the Company	<b>19,730</b>	17,454	13%	19,710	—
EPS (RMB per share)					
- basic	<b>1.505</b>	2.206	-32%	2.469	-39%
- diluted	<b>1.489</b>	2.177	-32%	2.440	-39%
Non-GAAP EPS (RMB per share)					
- basic	<b>2.087</b>	1.852	13%	2.085	—
- diluted	<b>2.065</b>	1.827	13%	2.061	—

	<b>Year ended 31 December</b>		Year-
	<b>2018</b>	2017	on-year
	(RMB in millions, unless specified)		
			change
Revenues	<b>312,694</b>	237,760	32%
Gross profit	<b>142,120</b>	116,925	22%
Operating profit	<b>97,648</b>	90,302	8%
Profit for the year	<b>79,984</b>	72,471	10%
Profit attributable to equity holders of the Company	<b>78,719</b>	71,510	10%
Non-GAAP profit attributable to equity holders of the Company	<b>77,469</b>	65,126	19%
EPS (RMB per share)			
- basic	<b>8.336</b>	7.598	10%
- diluted	<b>8.228</b>	7.499	10%
Non-GAAP EPS (RMB per share)			
- basic	<b>8.203</b>	6.920	19%
- diluted	<b>8.097</b>	6.830	19%

## **DIVIDEND**

The Board has recommended the payment of a final dividend of HKD1.00 per share (2017: HKD0.88 per share) for the year ended 31 December 2018, subject to the approval of the shareholders at the 2019 AGM. Such proposed dividend will be payable on 31 May 2019 to the shareholders whose names appear on the register of members of the Company on 22 May 2019.

## **BUSINESS REVIEW AND OUTLOOK**

### **1. Company Strategic Highlights**

2018 marked the 20th anniversary of the founding of the Group. Throughout our history, we have constantly been embracing changes in users' needs, technologies and market conditions to stay at the forefront of our industry. In October, we initiated a strategic organisational upgrade to extend our strengths in the Consumer Internet and to capture the opportunities of the Industrial Internet. This strategic upgrade is intended to enable us to drive the convergence of social, content and technology trends, and to better serve enterprises, as well as consumers.

During the year, we stepped up our investment in innovation and technologies to stay competitive in the evolving Internet industry. We enriched our social platforms with a broader portfolio of digital content, as well as online and offline services, thus deepening our connection with our users, advertisers, merchants and enterprise partners. Through these initiatives, we strengthened our market leadership in social, games, digital content, and payment, contributing to continuing growth across our core business segments.

We made the following key achievements in our core businesses:

Our social communications platforms, Weixin and QQ, represent the largest social communities in China in terms of MAU. The combined MAU of Weixin and WeChat increased to approximately 1,098 million by the end of 2018. Weixin further penetrated lower tier cities and covered a wider age group of users. On average, over 750 million Weixin users read friends' posts on Moments per day.

Mini Programs are now widely adopted by users and enterprises setting the industry trends for connecting online users to offline scenarios. DAU grew rapidly and daily visits per user increased by 54% year-on-year. Mini Programs cover more than 200 service sectors and connect with our users via multiple channels, including shortcuts in the chat interface, our in-app search function and offline Mini Programs QR Codes. In addition to connecting with online users, Mini Programs enable developers to achieve cross-platform development and instantaneous deployment for their products and services. We empower developers with cloud-based development kits, enhancing the development efficiency, particularly for long-tail developers. Daily visits to long-tail Mini Programs increased significantly, accounting for 43% of the total daily visits to Mini Programs.

Overall MAU of QQ increased to 807 million by the end of 2018 . We stayed engaged with young users as QQ introduced innovative and AI-empowered features to make its chat experience more fun and interactive. We offer entertainment-oriented content in verticals including eSports, comics and live streaming services to cater to the entertainment needs of millennial users. In particular, we further increased the user engagement of QQ KanDian, a popular news feed service among young users, through enriching its content with video feeds.

We have built up a content ecosystem covering online games, literature, video, music, news and comics. For online games, we are the leading platform globally by revenue and users. Our technical strength supports the operation of multiple PC and mobile blockbuster game titles, serving hundreds of millions of active users every day. Internationally, our subsidiary Riot Games operates the highest-MAU PC game, League of Legends, and we operate the highest-MAU smart phone game, PUBG MOBILE. Through our partnerships with and investments in global leaders such as Epic Games (creator of Fortnite) and Supercell (creator of Clash of Clans), we support the innovation and growth of the global game industry. In China, our popular smart phone games expanded our user base and increased time spent. We have taken the lead in introducing the Healthy Gameplay System to assist parents in managing the amount of time their children spend playing games. We upgraded the system last September by introducing measures to strengthen real-name verification, and implementing game time limits for children players, as well as spending alerts to their parents. Our Tencent Game Guardian Platform enables parents to engage with their children and track their in-game activities online. We recently provided teachers access to this platform to enhance their engagement with their students who play games. These initiatives built a pilot case for the China game industry and, we believe, help position it for sustainable and healthy growth in the long run.

Leveraging our rich IP portfolio, we provide digital content to our users across online media platforms. Our total digital content subscription counts exceeded 100 million by the end of 2018, up 50% year-on-year. High quality content, better IP protection, enhanced streaming capabilities and convenience of mobile payment were the growth drivers for our digital content subscription business. Tencent Video is the leading online video streaming platform in China in terms of mobile DAU and subscriptions, generating the highest revenues in the online video market in China through subscriptions and advertising. TME is the leading online music entertainment platform in China, operating the country’s most popular and innovative music apps — QQ Music, Kugou Music, Kuwo Music and WeSing. In December 2018, we listed TME on the New York Stock Exchange. News feeds, short videos and mini videos contributed substantially to traffic on our media and distribution platforms including Tencent News, QQ KanDian, Mobile QQ Browser and Weishi.

During 2018, we enhanced the monetisation potential of our platforms through connecting more advertisers, across more platforms, with more accurate user targeting capabilities. For social advertising, we increased our advertising inventory through adding the second ad unit in Weixin Moments, and we started to insert ad units into Mini Programs. For media advertising, we completed the system revamp of our news advertising in early 2018. Leveraging our enhanced recommendation algorithms, steady traffic growth and rising fill rates, our news feed business significantly grew its advertising revenues. Our video advertising outpaced the industry in terms of its revenue amount and revenue growth rate, due to the popularity of our content, especially self-commissioned content, and the strong growth in sponsorship advertising revenue. As part of the Company's strategic reorganisation, we merged our advertising sales teams to provide better marketing solutions, data analytics, and ad placement processes for our advertisers, thus enhancing their ROIs.

Payment is one of the key infrastructure platforms of the Company, enabling us and our merchant partners to complete transactions for online and offline services. We extended our market leadership as the leading mobile payment platform by active users and number of transactions in China. Our total daily payment transaction volume exceeded 1 billion for 2018, driven by rapid growth in commercial payments, which represented more than half of the number of transactions. Our commercial payment revenue more than doubled year-on-year in 2018. Our payment platform connects with tens of millions of merchants and monthly active merchants increased over 80% year-on-year in the fourth quarter of 2018. We boosted our payment penetration in the food and retail industries thanks to features such as our Mini Programs and Scan-to-Pay solution. In Hong Kong, we launched the first-of-its-kind cross-border mobile payment service in October 2018, which enables WeChat Pay Hong Kong users to conduct RMB-denominated transactions funded by Hong Kong dollars. This cross-border mobile payment service now covers approximately 1 million merchants in Mainland China, including taxi-hailing, food ordering, and high-speed railway ticketing services. The transaction volume of WeChat Pay Hong Kong increased more than 10 times year-on-year. We launched WeChat Pay Malaysia services in August, offering online transactions such as mobile credit top-ups, flight and bus ticket purchases, and offline transactions at retail outlets, such as supermarkets, fashion and beauty stores. Globally, we are expanding our footprint by supporting China outbound travelers to make cross-border payments in overseas destinations, and we now offer real-time tax refund services for Weixin Pay users in over 80 airports. Weixin Pay is now available in 49 markets outside Mainland China, supporting cross-border payment transactions in 16 currencies.

Building on our payment user base, we offer FinTech services to under-served consumers, conveniently and at low cost. LiCaiTong, our wealth management platform, helped manage over RMB600 billion of customer assets as of the end of 2018. WeBank, our associate with an online banking business, achieved rapid growth in the outstanding loan balance of its micro-loan product for consumers, WeiLiDai. WeBank also expanded its loan services to enterprises, serving the financing needs for small and micro businesses customers through WeiYeDai.

Tencent Cloud is the foundation for our smart industry solutions. We integrate our cloud computing technology with AI and data analytics capabilities, to assist the digital transformation of various industries. Our online security capabilities enhance the stability and reliability of our cloud solutions. During 2018, Tencent Cloud maintained market leadership in verticals such as online games and streaming video leveraging our industry know-how and solid infrastructure. We now serve over half of the China-based games companies and are expanding overseas. We expanded our customer base rapidly for Internet services via strategic partnership in verticals. Key categories include eCommerce, social media and community, handset manufacturer app stores and smart transportation. We have further expanded our presence in other key industries such as financial and retail sectors. We are the partner of choice for top banks including BOC, CCB and CMB. Majority of top online finance companies and insurance firms are our clients. Our retail cloud solutions build on our unique properties such as Official Accounts and Mini Programs to increase retailers' consumer engagement, enhance their marketing ROI via our consumer targeting and anti-fraud technologies, and upgrade internal operations using AI, LBS and big data technologies.

In addition to growing our core businesses organically, we make strategic investments in best-in-class companies so we can focus our management attention and company resources on our own core platforms, while capturing emerging opportunities in adjacent verticals through investee companies. We have invested in more than 700 companies. More than 100 investee companies were valued at over USD1 billion each. Among which, over 60 went public. 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 our payment service penetration and advertiser base expansion. And, we use investments as a tool for better understanding frontier technologies which will become important to our future, such as connected cars, Internet-facilitated healthcare, and quantum computing. Our investments have created value for our investee companies by offering them access to our large user base, and providing them infrastructure, technology and capital support to bolster their growth.

## 2. Company Financial Performance

*In fiscal year 2018*

Revenues increased by 32% year-on-year, primarily driven by FinTech services, social and video advertising, and digital content subscriptions and sales.

Operating profit increased by 8% year-on-year. Non-GAAP operating profit increased by 13% year-on-year.

Profit attributable to equity holders of the Company increased by 10% year-on-year. Non-GAAP profit attributable to equity holders of the Company increased by 19%.

## 3. Company Business Highlights

*Operating Information*

	<b>As at 31 December 2018</b>	As at 31 December 2017	Year- on-year change	As at 30 September 2018	Quarter- on-quarter change
MAU of QQ	<b>807.1</b>	783.4	3.0%	802.6	0.6%
Smart device MAU of QQ	<b>699.8</b>	683.0	2.5%	697.9	0.3%
Combined MAU of Weixin and WeChat	<b>1,097.6</b>	988.6	11.0%	1,082.5	1.4%
Smart device MAU of Qzone	<b>532.4</b>	554.0	-3.9%	531.1	0.2%
Fee-based VAS registered subscriptions	<b>160.3</b>	134.6	19.1%	154.1	4.0%

## *Communication and Social*

- Weixin and WeChat: Combined MAU was 1,098 million, up by 11.0% year-on-year. Hundreds of millions of social videos are uploaded and shared on the Weixin platform every day. We enriched our user experience via a new video function that allows users to share 15-second mini video clips with AI-recommended background music with friends. WeChat Work, an enterprise application integrated with Weixin, allows companies to deepen engagement with customers, digitalise user profiles for data analytics, facilitate office administration and enhance internal communication. It is seeing particularly rapid adoption by large enterprises, providing a showcase for SMEs. Approximately 80% of the top 500 enterprises in China are now registered as WeChat Work corporate users.
- QQ: Smart device MAU was 699.8 million, up by 2.5% year-on-year. Smart device MAU for users aged 21 years or below increased by 13% year-on-year. We further increased young user stickiness by enhancing the video recording functions and news feed features. We launched AI-powered filters and stickers for video chat, increasing the number of short and mini videos shared by young users by over 50% year-on-year. For QQ KanDian, we added a bullet chatting function within video and enhanced video feed recommendation algorithms, boosting the click-through volume and increasing user time spent. QQ KanDian daily video views rose over 300% year-on-year.

## *Online Games*

For 2018, our smart phone games business achieved RMB77.8 billion revenues (including smart phone games revenues attributable to our social networks business), up 24% year-on-year; for the fourth quarter, it achieved RMB19.0 billion revenues, up 12% year-on-year. We released 9 licensed games in the fourth quarter, most of which were role playing games. The industry regulator re-started issuing game monetisation license (“banhao”) approvals in December 2018, after a nine-month suspension. A total of 8 Tencent games (including 7 smart phone games and 1 PC game) have received approval so far, including role playing games, strategy, casual and functional genres. Since there is a sizeable backlog for the banhao applications in the industry, our scheduled game releases will initially be slower than in some prior years. We have implemented our upgraded Healthy Gameplay System in 39 smart phone games, including our most popular titles such as Honour of Kings, QQ Speed Mobile, Cross Fire Mobile, Naruto OL Mobile and MT4. The system has resulted in minors spending significantly less time in the affected games, but immaterial impact on time spent by adult players.



In China, we increased our market share in smart phone games in terms of active users. We enhanced user engagement across multiple genres. For action titles, QQ Speed Mobile's anniversary promotions increased its DAU sequentially. Cross Fire Mobile introduced a season pass to encourage in-game engagement. For role playing games, we launched several IP-based games that attracted fans of popular anime and comic franchises such as Battle through the Heavens, Naruto OL Mobile and Samurai Spirits. For MOBA, Honour of Kings organised its flagship eSports event KPL Fall Final in December, attracting over 75 million unique viewers for the live broadcast. In international markets, PUBG MOBILE achieved breakout success, becoming the most popular game globally by MAU, and was named the Best Game of 2018 by Google Play. Our investee companies' success added to our proven track record of working with category leaders in the games industry. For example, Supercell's new MOBA game Brawl Stars was the most downloaded game in 50 markets after its global launch in December 2018. And, Epic Games' Fortnite continued its phenomenal success, topping US iOS Grossing Chart in the fourth quarter. Sea's first self-developed game, Free Fire, was the fourth most downloaded game globally in 2018, according to App Annie.

Our PC client games business achieved approximately RMB50.6 billion revenues, down 8% year-on-year, for 2018, and approximately RMB11.2 billion revenues for the fourth quarter, down 13% year-on-year as users continue to shift time to mobile. League of Legends introduced its first season pass and increased average user time spent, with active users growing sequentially after a China team won the World Championship in November 2018. We released a sequel to NBA2K in China, significantly expanding the total user base of this popular basketball franchise. We launched two new internally developed PC games, Iris Fall and Bladed Fury, to better serve niche audience interests.

### ***Digital Content***

Our fee-based VAS subscriptions were up by 19.1% year-on-year to 160.3 million, mainly attributable to growth in video and music subscriptions. Tencent Video expanded its subscription counts to 89 million, up 58% year-on-year, driven by premium content and cross-promotions. We released sequels to popular self-commissioned IPs, extending the longevity and monetisation opportunities of these IPs. These included Candle in the Tomb Season 3 in the drama category, the Land of Warriors Season 2 in Chinese anime, and Once Upon A Bite in documentary (whose related IP program, Flavorful Origins, we licensed to Netflix for distribution outside China). We upgraded our VIP loyalty program to offer subscribers different tiers of privileges. We maintained healthy engagement trends with video views per

DAU up over 40% year-on-year, as consumers watched more short form videos. We are the leading streaming platform for sports fans in China, featuring 40 top global sports IPs, including the 4 major sports leagues in the US. We distribute sports content in live programs, news feeds and short videos formats across Tencent Sports, Tencent News, Tencent Video, Mobile QQ Browser and WeiShi. Since we began licensing NBA live streaming rights in 2015, we have expanded the total audience size for NBA games in China. Over the period, average daily unique visitors per live-streamed NBA game in China have tripled.

### ***Online Advertising***

Our online advertising business achieved RMB58.1 billion revenues, up 44% year-on-year, for 2018, and RMB17.0 billion revenues, up 38% year-on-year, for the fourth quarter. Social and Others advertising grew to RMB39.8 billion, up 55% year-on-year for the full year, and RMB11.8 billion, up 44% year-on-year for the fourth quarter, driven by Weixin Moments, Mini Programs, QQ KanDian and our mobile advertising network. We received positive feedback from advertisers after the launch of the second daily ad unit for Moments, and the overall ad fill rates remained high. About 50% of Moments DAU were shown the second ad unit, and Moments ad click-through rates remained at healthy levels. Media advertising revenues amounted to RMB18.3 billion, up 23% for the full year, and RMB5.2 billion, up 26% for the fourth quarter. Among which, video advertising revenues increased by 34% year-on-year for 2018 and 21% year-on-year for the fourth quarter. The increase in the fourth quarter was driven by more video views and sponsorship advertising for our popular self-commissioned variety shows. Our news advertising revenues picked up year-on-year in the latter half of the year, recovering from our system revamp. Media feed advertising revenues grew by over 10 times year-on-year.

### ***Others***

Our other businesses grew revenues by 80% year-on-year for the year 2018, primarily contributed by FinTech and cloud services. The increase in FinTech revenues was driven by our take-rate on commercial transactions collected from merchants, cash withdrawal fees and credit card repayment charges collected from users, and the service fees from financial institutions for the distribution of FinTech products such as WeiLiDai and the wealth management products on our LiCaiTong platform. In January 2019, we completed the transition to the centralised clearing and settlement system and moved all custodian cash to the accounts of the People's Bank of China.

As we added more use cases online and offline for our payment services, our payment active users increased robustly year-on-year. Users' transaction frequency and value per transaction also increased. Weixin Pay launched a new user interface enabling easier access to new features including virtual subsidiary cards for parents and children. We enhanced account management tools for merchants, including cash register, book-keeping and revenue sharing settlement functions. LiCaiTong enlarged its user base, reaching 100 million accumulated users by end of 2018. We expanded our FinTech services by rolling out LingQianTong, which enables users to invest the unused cash balance in their Weixin Pay accounts in funds.

Our cloud revenues increased by over 100% to RMB9.1 billion for the year 2018. Paying customers more than doubled year-on-year in the fourth quarter of 2018. Tencent Cloud's global infrastructure covered 25 regions and operated 53 availability zones as of the end of 2018. We developed and launched new IaaS and PaaS products in the fourth quarter. In addition to strengthening our leadership in games and video verticals, we further promoted our presence in financial and retail cloud services, leveraging our AI and security capabilities.

#### **4. Company Outlook and Strategies for 2019**

Looking ahead, we will invest in core infrastructure and frontier technologies to embrace the trend of the Industrial Internet, while continuing to drive the evolution of the Consumer Internet.

We will enable our enterprise partners to better connect with our users via an expanding, open and connected ecosystem. Utilising our innovation and technology capabilities, we seek to assist a range of industries in undergoing digital upgrades and transformation.

For our social communications platforms, we will strengthen connections between our users with digital content, as well as online and offline services. We will also enhance connections with enterprises leveraging Mini Programs, Weixin Pay and WeChat Work. For online games, we will strengthen our game portfolio through enhancing our internal R&D capability and external partnerships. We will further expand our overseas business through exploring new game genres and strengthening our overseas publishing capability. For digital content, we will continue to invest and grow our subscription business. For advertising, we will strengthen our user targeting capabilities to further increase our ROIs to advertisers and relevance to consumers. For FinTech, we will drive innovation in our payment product development and add new payment use cases. We will also expand our FinTech solutions and product portfolio to cater to the wealth management and financial needs of our users. For cloud, we will integrate our advanced cloud computing capability, data analytics, AI and security solutions, to develop customised solutions for various industries such as retail, financial, transportation, healthcare and education. We will assist enterprises in upgrading and innovating for the digital age.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

The following table sets forth the comparative figures for the years ended 31 December 2018 and 2017:

	Year ended 31 December	
	2018	2017
	(RMB in millions)	
Revenues	<b>312,694</b>	237,760
Cost of revenues	<b>(170,574)</b>	<b>(120,835)</b>
Gross profit	<b>142,120</b>	116,925
Interest income	<b>4,569</b>	3,940
Other gains, net	<b>16,714</b>	20,140
Selling and marketing expenses	<b>(24,233)</b>	(17,652)
General and administrative expenses	<b>(41,522)</b>	<b>(33,051)</b>
Operating profit	<b>97,648</b>	90,302
Finance costs, net	<b>(4,669)</b>	(2,908)
Share of profit of associates and joint ventures	<b>1,487</b>	821
Profit before income tax	<b>94,466</b>	88,215
Income tax expense	<b>(14,482)</b>	<b>(15,744)</b>
Profit for the year	<b><u>79,984</u></b>	<b><u>72,471</u></b>
Attributable to:		
Equity holders of the Company	<b>78,719</b>	71,510
Non-controlling interests	<b><u>1,265</u></b>	<u>961</u>
	<b><u>79,984</u></b>	<b><u>72,471</u></b>
Non-GAAP profit attributable to equity holders of the Company	<b><u>77,469</u></b>	<b><u>65,126</u></b>

*Revenues.* Revenues increased by 32% to RMB312.7 billion for the year ended 31 December 2018 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 2017:

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

- Revenues from our VAS business increased by 15% to RMB176.6 billion for the year ended 31 December 2018 on a year-on-year basis. Online games revenues grew by 6% to RMB104.0 billion. The increase primarily reflected growth in revenues from our existing smart phone games such as Honour of Kings and QQ Speed Mobile, and new titles such as MU Awakening and QQ Dancers Mobile. Revenues from our PC client games decreased mainly due to users' time shift to smart phone games although some individual PC games performed robustly. Social networks revenues increased by 30% to RMB72,654 million. The increase was mainly due to higher contributions from our digital content services such as live broadcast services and video streaming subscriptions, as well as from in-game virtual item sales.
- Revenues from our online advertising business increased by 44% to RMB58,079 million for the year ended 31 December 2018 on a year-on-year basis. Social and others advertising revenues increased by 55% to RMB39,773 million. The increase mainly reflected higher advertising revenues derived from Weixin Moments, Mini Programs and our mobile advertising network. Media advertising revenues grew by 23% to RMB18,306 million. The increase was primarily driven by greater advertising revenues from Tencent Video.
- Revenues from our other businesses increased by 80% to RMB77,969 million for the year ended 31 December 2018 on a year-on-year basis. The increase was mainly due to revenue growth from our FinTech and cloud services.

*Cost of revenues.* Cost of revenues increased by 41% to RMB170.6 billion for the year ended 31 December 2018 on a year-on-year basis. The increase primarily reflected greater content costs, costs of FinTech services, and channel costs. As a percentage of revenues, cost of revenues increased to 55% for the year ended 31 December 2018 from 51% for the year ended 31 December 2017. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2018 and 2017:

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

- Cost of revenues for our VAS business increased by 20% to RMB73,961 million for the year ended 31 December 2018 on a year-on-year basis. The increase was mainly due to greater content costs for services and products including live broadcast, video streaming subscriptions and online games, as well as higher channel costs for our smart phone games.
- Cost of revenues for our online advertising business increased by 46% to RMB37,273 million for the year ended 31 December 2018 on a year-on-year basis. The increase was primarily driven by greater content costs, traffic acquisition costs and advertising commissions.
- Cost of revenues for our other businesses increased by 75% to RMB59,340 million for the year ended 31 December 2018 on a year-on-year basis, mainly reflecting the increased scale of our FinTech and cloud services.

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

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

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

*Finance costs, net.* Net finance costs increased by 61% to RMB4,669 million for the year ended 31 December 2018 on a year-on-year basis. The increase primarily reflected greater interest expenses driven by higher amount of indebtedness.

*Income tax expense.* Income tax expense decreased by 8% to RMB14,482 million for the year ended 31 December 2018 on a year-on-year basis. The decrease was mainly due to the entitlements of preferential tax treatments and benefits.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 10% to RMB78,719 million for the year ended 31 December 2018 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 19% to RMB77,469 million for the year ended 31 December 2018.

## Fourth Quarter of 2018 Compared to Fourth Quarter of 2017

The following table sets forth the comparative figures for the fourth quarter of 2018 and the fourth quarter of 2017:

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>
	(RMB in millions)	
Revenues	<b>84,896</b>	66,392
Cost of revenues	<u>(49,744)</u>	<u>(34,897)</u>
Gross profit	<b>35,152</b>	31,495
Interest income	<b>1,350</b>	1,156
Other (losses)/gains, net	<b>(2,139)</b>	7,906
Selling and marketing expenses	<b>(5,730)</b>	(6,022)
General and administrative expenses	<u>(11,345)</u>	<u>(8,811)</u>
Operating profit	<b>17,288</b>	25,724
Finance costs, net	<b>(1,372)</b>	(859)
Share of profit/(loss) of associates and joint ventures	<u>16</u>	<u>(120)</u>
Profit before income tax	<b>15,932</b>	24,745
Income tax expense	<u>(1,906)</u>	<u>(3,123)</u>
Profit for the period	<u><b>14,026</b></u>	<u>21,622</u>
Attributable to:		
Equity holders of the Company	<b>14,229</b>	20,797
Non-controlling interests	<u>(203)</u>	<u>825</u>
	<u><b>14,026</b></u>	<u>21,622</u>
Non-GAAP profit attributable to equity holders of the Company	<u><b>19,730</b></u>	<u>17,454</u>



*Revenues.* Revenues increased by 28% to RMB84,896 million for the fourth quarter of 2018 on a year-on-year basis. The following table sets forth our revenues by line of business for the fourth quarter of 2018 and the fourth quarter of 2017:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>31 December 2018</b>		31 December 2017	
	<b>Amount</b>	<b>% of total revenues</b>	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	<b>43,651</b>	<b>51%</b>	39,947	60%
Online advertising	<b>17,033</b>	<b>20%</b>	12,361	19%
Others	<b><u>24,212</u></b>	<b><u>29%</u></b>	<u>14,084</u>	<u>21%</u>
Total revenues	<b><u>84,896</u></b>	<b><u>100%</u></b>	<u>66,392</u>	<u>100%</u>

- Revenues from our VAS business increased by 9% to RMB43,651 million for the fourth quarter of 2018 on a year-on-year basis. Online games revenues were RMB24,199 million, broadly stable compared to the fourth quarter of 2017. Social networks revenues grew by 25% to RMB19,452 million. The increase mainly reflected growth in revenues from digital content services such as live broadcast services and video streaming subscriptions.
- Revenues from our online advertising business increased by 38% to RMB17,033 million for the fourth quarter of 2018 on a year-on-year basis. Social and others advertising revenues increased by 44% to RMB11,846 million, primarily contributed by an increase in advertising revenues derived from Weixin Moments, Mini Programs and QQ KanDian. Media advertising revenues grew by 26% to RMB5,187 million, mainly reflecting contributions from our media platforms such as Tencent Video and Tencent News.
- Revenues from our other businesses increased by 72% to RMB24,212 million for the fourth quarter of 2018 on a year-on-year basis. The increase mainly reflected higher revenues from our FinTech and cloud services, as well as film and television production business.

*Cost of revenues.* Cost of revenues increased by 43% to RMB49,744 million for the fourth quarter of 2018 on a year-on-year basis. The increase mainly reflected greater content costs, costs of FinTech services, as well as channel costs. As a percentage of revenues, cost of revenues increased to 59% for the fourth quarter of 2018 from 53% for the fourth quarter of 2017. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2018 and the fourth quarter of 2017:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>31 December 2018</b>		31 December 2017	
	<b>% of</b>		<b>% of</b>	
	<b>segment</b>		<b>segment</b>	
	<b>Amount</b>	<b>revenues</b>	Amount	revenues
	(RMB in millions, unless specified)			
VAS	<b>20,330</b>	<b>47%</b>	16,268	41%
Online advertising	<b>10,800</b>	<b>63%</b>	7,759	63%
Others	<b><u>18,614</u></b>	<b>77%</b>	<u>10,870</u>	77%
Total cost of revenues	<b><u><u>49,744</u></u></b>		<u><u>34,897</u></u>	

- Cost of revenues for our VAS business increased by 25% to RMB20,330 million for the fourth quarter of 2018 on a year-on-year basis. The increase was primarily due to greater content costs for video streaming subscriptions, live broadcast services and online games. Channel costs for our smart phone games also increased.
- Cost of revenues for our online advertising business increased by 39% to RMB10,800 million for the fourth quarter of 2018 on a year-on-year basis. The increase was mainly due to greater content costs and advertising commissions.
- Cost of revenues for our other businesses increased by 71% to RMB18,614 million for the fourth quarter of 2018 on a year-on-year basis. The increase was primarily driven by the scale expansion of our FinTech and cloud services, as well as film and television production business.

*Other (losses)/gains, net.* We recorded net other losses of RMB2,139 million for the fourth quarter of 2018, which primarily consisted of one-off expenses in respect of the issuance of ordinary shares to strategic partners recognised by TME, as well as impairment provisions for certain investee companies, reflecting revisions of their financial outlook and changes in the market environment.

*Selling and marketing expenses.* Selling and marketing expenses decreased by 5% to RMB5,730 million for the fourth quarter of 2018 on a year-on-year basis. The decrease was primarily driven by the reduction of advertising and promotion expenses due to internal initiatives to reduce less effective marketing campaigns. As a percentage of revenues, selling and marketing expenses decreased to 7% for the fourth quarter of 2018 from 9% for the fourth quarter of 2017.

*General and administrative expenses.* General and administrative expenses increased by 29% to RMB11,345 million for the fourth quarter of 2018 on a year-on-year basis. The increase mainly reflected greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses were 13% for the fourth quarter of 2018, broadly stable compared to the fourth quarter of 2017.

*Finance costs, net.* Net finance costs increased by 60% to RMB1,372 million for the fourth quarter of 2018 on a year-on-year basis. The increase was primarily due to greater interest expenses as a result of higher amount of indebtedness.

*Income tax expense.* Income tax expense decreased by 39% to RMB1,906 million for the fourth quarter of 2018 on a year-on-year basis. The decrease mainly reflected the entitlements of preferential tax treatments and benefits.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company decreased by 32% to RMB14,229 million for the fourth quarter of 2018 on a year-on-year basis. The decrease was greatly affected by non-cash expenses related to capital raising at a subsidiary in the fourth quarter of 2018, coupled with substantial deemed disposal gains relating to the capital activities of certain investee companies (such as the IPOs of Yixin, Sea and Sogou) in the fourth quarter of 2017. Non-GAAP profit attributable to equity holders of the Company increased by 13% to RMB19,730 million.

## Fourth Quarter of 2018 Compared to Third Quarter of 2018

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 December</b>	<b>30 September</b>
	<b>2018</b>	<b>2018</b>
	(RMB in millions)	
Revenues	<b>84,896</b>	80,595
Cost of revenues	<u>(49,744)</u>	<u>(45,115)</u>
Gross profit	<b>35,152</b>	35,480
Interest income	<b>1,350</b>	1,082
Other (losses)/gains, net	<b>(2,139)</b>	8,762
Selling and marketing expenses	<b>(5,730)</b>	(6,573)
General and administrative expenses	<u>(11,345)</u>	<u>(10,890)</u>
Operating profit	<b>17,288</b>	27,861
Finance costs, net	<b>(1,372)</b>	(1,492)
Share of profit of associates and joint ventures	<u>16</u>	<u>264</u>
Profit before income tax	<b>15,932</b>	26,633
Income tax expense	<u>(1,906)</u>	<u>(3,228)</u>
Profit for the period	<u><b>14,026</b></u>	<u>23,405</u>
Attributable to:		
Equity holders of the Company	<b>14,229</b>	23,333
Non-controlling interests	<u>(203)</u>	<u>72</u>
	<u><b>14,026</b></u>	<u>23,405</u>
Non-GAAP profit attributable to equity holders of the Company	<u><b>19,730</b></u>	<u>19,710</u>

*Revenues.* Revenues increased by 5% to RMB84,896 million for the fourth quarter of 2018 on a quarter-on-quarter basis.

- Revenues from our VAS business were RMB43,651 million for the fourth quarter of 2018, broadly stable compared to the previous quarter. Online games revenues decreased by 6% to RMB24,199 million. The decrease mainly reflected lower revenues from our PC client games such as DnF. Social networks revenues increased by 7% to RMB19,452 million. The increase was primarily driven by revenue growth from our digital content services such as live broadcast services and video streaming subscriptions.
- Revenues from our online advertising business increased by 5% to RMB17,033 million for the fourth quarter of 2018. Social and others advertising revenues grew by 6% to RMB11,846 million. The increase mainly reflected higher advertising revenues derived from Weixin. Media advertising revenues increased by 2% to RMB5,187 million.
- Revenues from our other businesses increased by 19% to RMB24,212 million for the fourth quarter of 2018. The increase was mainly due to growth in revenues from film and television production business, FinTech and cloud services.

*Cost of revenues.* Cost of revenues increased by 10% to RMB49,744 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The increase primarily reflected greater content costs, costs of FinTech services and channel costs. As a percentage of revenues, cost of revenues increased to 59% for the fourth quarter of 2018 from 56% for the third quarter of 2018.

- Cost of revenues for our VAS business increased by 6% to RMB20,330 million for the fourth quarter of 2018. The increase was primarily driven by greater content costs for our live broadcast services, music services and smart phone games.
- Cost of revenues for our online advertising business increased by 5% to RMB10,800 million for the fourth quarter of 2018. The increase was mainly due to greater advertising commissions and traffic acquisition costs, partly offset by lower content costs.
- Cost of revenues for our other businesses increased by 19% to RMB18,614 million for the fourth quarter of 2018. The growth primarily derived from our FinTech services, film and television production business and cloud services.

*Other (losses)/gains, net.* We recorded net other losses of RMB2,139 million for the fourth quarter of 2018, which primarily consisted of one-off expenses in respect of the issuance of ordinary shares to strategic partners recognised by TME, as well as impairment provisions for certain investee companies, reflecting revisions of their financial outlook and changes in the market environment.

*Selling and marketing expenses.* Selling and marketing expenses decreased by 13% to RMB5,730 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The decrease mainly reflected lower advertising and promotion expenses, resulting from internal initiatives to reduce less effective marketing campaigns.

*General and administrative expenses.* General and administrative expenses increased by 4% to RMB11,345 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The increase mainly reflected greater spending on staff fringe benefits and conference fees.

*Income tax expense.* Income tax expense decreased by 41% to RMB1,906 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The decrease was primarily driven by reversals of income tax provisions resulting from the entitlements of preferential tax treatments and benefits, partly offset by greater withholding tax.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company decreased by 39% to RMB14,229 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The decrease was greatly affected by non-cash expenses related to capital raising at a subsidiary in the fourth quarter of 2018 versus higher fair value gains from certain investee companies (including a fair value gain from Meituan Dianping upon its IPO) in the third quarter of 2018. Non-GAAP profit attributable to equity holders of the Company was RMB19,730 million, essentially flat quarter-on-quarter.

## Other Financial Information

	Unaudited			Year ended	
	Three months ended		31 December		2017
	31 December 2018	30 September 2018	31 December 2017	2018	
	(RMB in millions, unless specified)				
EBITDA (a)	<b>27,180</b>	27,568	23,278	<b>110,404</b>	89,724
Adjusted EBITDA (a)	<b>29,701</b>	29,577	25,127	<b>118,273</b>	95,861
Adjusted EBITDA margin (b)	<b>35%</b>	37%	38%	<b>38%</b>	40%
Interest and related expenses	<b>1,345</b>	1,298	839	<b>4,898</b>	3,060
Net (debt)/cash (c)	<b>(12,170)</b>	(29,227)	16,332	<b>(12,170)</b>	16,332
Capital expenditures (d)	<b>4,564</b>	5,974	4,975	<b>23,941</b>	13,585

Note:

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

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

	Unaudited			Unaudited	
	Three months ended		Year ended		
	31 December	30 September	31 December	31 December	
	2018	2018	2017	2018	2017
	(RMB in millions, unless specified)				
Operating profit	17,288	27,861	25,724	97,648	90,302
Adjustments:					
Interest income	(1,350)	(1,082)	(1,156)	(4,569)	(3,940)
Other losses/(gains), net	2,139	(8,762)	(7,906)	(16,714)	(20,140)
Depreciation of property, plant and equipment and investment properties	2,520	2,321	1,376	8,423	4,880
Amortisation of intangible assets	6,583	7,230	5,240	25,616	18,622
EBITDA	27,180	27,568	23,278	110,404	89,724
Equity-settled share-based compensation	2,521	2,009	1,849	7,869	6,137
Adjusted EBITDA	29,701	29,577	25,127	118,273	95,861

## Non-GAAP Financial Measures

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

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

The following tables set forth the reconciliations of the Group's non-GAAP financial measures for the fourth quarter of 2018 and 2017, the third quarter of 2018, and the years ended 31 December 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

	Unaudited three months ended 31 December 2018						
	Adjustments					Non-GAAP	
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies		Amortisation of intangible assets (c)		Impairment provision (d)
			1,579	517			
(125)							
Operating profit	17,288	2,459	1,579	198	864	22,388	
Profit for the period	14,026	2,879	517	1,882	936	20,240	
Profit attributable to equity holders	14,229	2,804	(125)	1,814	1,008	19,730	
EPS (RMB per share)							
- basic	1.505					2.087	
- diluted	1.489					2.065	
Operating margin	20%					26%	
Net margin	17%					24%	



Unaudited three months ended 30 September 2018

	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
	(RMB in millions, unless specified)					
Operating profit	27,861	2,011	(20,949)	127	13,513	22,563
Profit for the period	23,405	3,531	(20,840)	916	13,411	20,423
Profit attributable to equity holders	23,333	3,458	(20,819)	876	12,862	19,710
EPS (RMB per share)						
- basic	2.469					2.085
- diluted	2.440					2.061
Operating margin	35%					28%
Net margin	29%					25%

Unaudited three months ended 31 December 2017

	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
	(RMB in millions, unless specified)					
Operating profit	25,724	1,874	(6,281)	112	424	21,853
Profit for the period	21,622	2,146	(6,229)	474	358	18,371
Profit attributable to equity holders	20,797	2,084	(6,189)	442	320	17,454
EPS (RMB per share)						
- basic	2.206					1.852
- diluted	2.177					1.827
Operating margin	39%					33%
Net margin	33%					28%

Year ended 31 December 2018

	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
			(RMB in millions, unless specified)			
Operating profit	97,648	7,900	(31,168)	524	17,577	92,481
Profit for the year	79,984	10,654	(32,121)	4,142	17,633	80,292
Profit attributable to equity holders	78,719	10,325	(32,696)	3,964	17,157	77,469
EPS (RMB per share)						
- basic	8.336					8.203
- diluted	8.228					8.097
Operating margin	31%					30%
Net margin	26%					26%

Year ended 31 December 2017

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

Note:

- (a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Including net (gains)/losses on deemed disposals/disposals of investee companies, fair value changes arising from investee companies, and other expenses in relation to equity transactions of investee companies
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provisions for associates, joint ventures, AFS (2017) and intangible assets arising from acquisitions

## Liquidity and Financial Resources

Our cash positions as at 31 December 2018 and 30 September 2018 are as follows:

	<b>Audited</b> <b>31 December</b> <b>2018</b> (RMB in millions)	Unaudited 30 September 2018
Cash and cash equivalents	<b>97,814</b>	105,394
Term deposits and others	<u><b>69,305</b></u>	<u>39,079</u>
	<b>167,119</b>	144,473
Borrowings	<b>(114,271)</b>	(108,543)
Notes payable	<u><b>(65,018)</b></u>	<u>(65,157)</u>
Net debt	<u><b>(12,170)</b></u>	<u>(29,227)</u>
Fair value of our stakes in listed investee companies (excluding subsidiaries)	<u><b>238,040</b></u>	<u>273,104</u>

As at 31 December 2018, the Group had net debt of RMB12,170 million, compared to net debt of RMB29,227 million as of 30 September 2018. The sequential decrease in indebtedness was mainly due to free cash flow generation, proceeds from TME's capital raising activities and disposals of our stakes in certain investee companies, partially offset by payments for M&A initiatives and media content.

For the fourth quarter of 2018, the Group had free cash flow of RMB28,623 million. This was a result of net cash flow generated from operating activities of RMB33,221 million, offset by payments for capital expenditure of RMB4,598 million.

## FINANCIAL INFORMATION

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December	
		2018	2017
	Note	RMB'Million	RMB'Million
<b>Revenues</b>			
Value-added services		176,646	153,983
Online advertising		58,079	40,439
Others		<u>77,969</u>	<u>43,338</u>
		<b>312,694</b>	237,760
Cost of revenues	4	<u>(170,574)</u>	<u>(120,835)</u>
<b>Gross profit</b>		<b>142,120</b>	116,925
Interest income		4,569	3,940
Other gains, net	3	16,714	20,140
Selling and marketing expenses	4	(24,233)	(17,652)
General and administrative expenses	4	<u>(41,522)</u>	<u>(33,051)</u>
<b>Operating profit</b>		<b>97,648</b>	90,302
Finance costs, net		(4,669)	(2,908)
Share of profit of associates and joint ventures		<u>1,487</u>	<u>821</u>
<b>Profit before income tax</b>		<b>94,466</b>	88,215
Income tax expense	5	<u>(14,482)</u>	<u>(15,744)</u>
<b>Profit for the year</b>		<b><u>79,984</u></b>	<b><u>72,471</u></b>
<b>Attributable to:</b>			
Equity holders of the Company		78,719	71,510
Non-controlling interests		<u>1,265</u>	<u>961</u>
		<b><u>79,984</u></b>	<b><u>72,471</u></b>
<b>Earnings per share for profit attributable to equity holders of the Company (in RMB per share)</b>			
- basic	6	<u>8.336</u>	<u>7.598</u>
- diluted	6	<u>8.228</u>	<u>7.499</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>RMB'Million</b>	<b>RMB'Million</b>
<b>Profit for the year</b>	<b><u>79,984</u></b>	<b><u>72,471</u></b>
<b>Other comprehensive income, net of tax:</b>		
<i>Items that may be subsequently reclassified to profit or loss</i>		
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
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	(16,391)	—
Other fair value losses	<u>(170)</u>	<u>(50)</u>
	<b><u>(12,224)</u></b>	<b><u>6,590</u></b>
<b>Total comprehensive income for the year</b>	<b><u>67,760</u></b>	<b><u>79,061</u></b>
<b>Attributable to:</b>		
Equity holders of the Company	66,339	78,218
Non-controlling interests	<u>1,421</u>	<u>843</u>
	<b><u>67,760</u></b>	<b><u>79,061</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

		<b>As at 31 December</b>	
		<b>2018</b>	<b>2017</b>
	Note	RMB'Million	RMB'Million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>35,091</b>	23,597
Construction in progress		<b>4,879</b>	3,163
Investment properties		<b>725</b>	800
Land use rights		<b>7,106</b>	5,111
Intangible assets		<b>56,650</b>	40,266
Investments in associates	8	<b>219,215</b>	113,779
Investments in redeemable instruments of associates	1	—	22,976
Investments in joint ventures		<b>8,575</b>	7,826
Financial assets at fair value through profit or loss	1,9	<b>91,702</b>	—
Financial assets at fair value through other comprehensive income	1,10	<b>43,519</b>	—
Available-for-sale financial assets	1	—	127,218
Prepayments, deposits and other assets		<b>21,531</b>	11,173
Other financial assets	1	<b>1,693</b>	5,159
Deferred income tax assets		<b>15,755</b>	9,793
Term deposits		—	5,365
		<b><u>506,441</u></b>	<u>376,226</u>
<b>Current assets</b>			
Inventories		<b>324</b>	295
Accounts receivable	11	<b>28,427</b>	16,549
Prepayments, deposits and other assets		<b>18,493</b>	17,110
Other financial assets	1	<b>339</b>	465
Financial assets at fair value through profit or loss	1,9	<b>6,175</b>	—
Term deposits		<b>62,918</b>	36,724
Restricted cash		<b>2,590</b>	1,606
Cash and cash equivalents		<b>97,814</b>	105,697
		<b><u>217,080</u></b>	<u>178,446</u>
<b>Total assets</b>		<b><u><u>723,521</u></u></b>	<u><u>554,672</u></u>

		<b>As at 31 December</b>	
		<b>2018</b>	<b>2017</b>
Note		<b>RMB' Million</b>	<b>RMB' Million</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
	Share capital	—	—
	Share premium	27,294	22,204
	Shares held for share award schemes	(4,173)	(3,970)
	Other reserves	729	35,158
	Retained earnings	<u>299,660</u>	<u>202,682</u>
		<b>323,510</b>	<b>256,074</b>
	<b>Non-controlling interests</b>	<u><b>32,697</b></u>	<u><b>21,019</b></u>
	<b>Total equity</b>	<u><b>356,207</b></u>	<u><b>277,093</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
	Borrowings	14 <b>87,437</b>	82,094
	Notes payable	15 <b>51,298</b>	29,363
	Long-term payables	<b>4,797</b>	3,862
	Other financial liabilities	<b>3,306</b>	2,154
	Deferred income tax liabilities	<b>10,964</b>	5,975
	Deferred revenue	<u><b>7,077</b></u>	<u><b>2,391</b></u>
		<u><b>164,879</b></u>	<u><b>125,839</b></u>
<b>Current liabilities</b>			
	Accounts payable	13 <b>73,735</b>	50,085
	Other payables and accruals	<b>33,312</b>	29,433
	Borrowings	14 <b>26,834</b>	15,696
	Notes payable	15 <b>13,720</b>	4,752
	Current income tax liabilities	<b>10,210</b>	8,708
	Other financial liabilities	<b>1,200</b>	—
	Other tax liabilities	<b>1,049</b>	934
	Deferred revenue	<u><b>42,375</b></u>	<u><b>42,132</b></u>
		<u><b>202,435</b></u>	<u><b>151,740</b></u>
	<b>Total liabilities</b>	<u><b>367,314</b></u>	<u><b>277,579</b></u>
	<b>Total equity and liabilities</b>	<u><u><b>723,521</b></u></u>	<u><u><b>554,672</b></u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total			
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	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 1)	-	-	-	(16,210)	16,210	-	-	-	
Balance at 1 January 2018	-	22,204	(3,970)	18,948	218,892	256,074	21,019	277,093	
<b>Comprehensive income</b>									
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	
<b>Total comprehensive income for the year</b>	-	-	-	(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	



Attributable to equity holders of the Company

	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>Transactions with equity holders</b>								
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 7)	-	-	-	-	(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)
<b>Total transactions with equity holders at their capacity as equity holders for the year</b>	<b>-</b>	<b>5,090</b>	<b>(203)</b>	<b>861</b>	<b>(7,512)</b>	<b>(1,764)</b>	<b>10,257</b>	<b>8,493</b>
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>27,294</b>	<b>(4,173)</b>	<b>729</b>	<b>299,660</b>	<b>323,510</b>	<b>32,697</b>	<b>356,207</b>

	Attributable to equity holders of the Company							Total equity RMB'Million
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non- controlling interests	
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	
<b>Balance at 1 January 2017</b>	–	17,324	(3,136)	23,693	136,743	174,624	11,623	186,247
<b>Comprehensive income</b>								
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
<b>Total comprehensive income for the year</b>	–	–	–	6,708	71,510	78,218	843	79,061
<b>Transactions with equity holders</b>								
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 7)	–	–	–	–	(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
<b>Total transactions with equity holders at their capacity as equity holders for the year</b>	–	4,880	(834)	4,757	(5,571)	3,232	8,553	11,785
<b>Balance at 31 December 2017</b>	–	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>RMB' Million</b>	<b>RMB' Million</b>
<b>Net cash flows generated from operating activities</b>	<b>106,443</b>	106,140
<b>Net cash flows used in investing activities</b>	<b>(151,913)</b>	(96,392)
<b>Net cash flows generated from financing activities</b>	<u><b>35,380</b></u>	<u>26,598</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(10,090)</b>	36,346
Cash and cash equivalents at beginning of the year	<b>105,697</b>	71,902
Exchange gains/(losses) on cash and cash equivalents	<u><b>2,207</b></u>	<u>(2,551)</u>
<b>Cash and cash equivalents at end of the year</b>	<u><u><b>97,814</b></u></u>	<u><u>105,697</u></u>
<b>Analysis of balances of cash and cash equivalents:</b>		
Bank balances and cash	<b>38,696</b>	48,278
Term deposits and highly liquid investments with initial terms within three months	<u><b>59,118</b></u>	<u>57,419</u>
	<u><u><b>97,814</b></u></u>	<u><u>105,697</u></u>

**Note:**

**1 General information, basis of preparation and presentation**

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

The Company is an investment holding company. The Group are principally engaged in the provision of VAS and online advertising services to users in the PRC.

The consolidated financial statements of the Group have been prepared in accordance with all applicable 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 and derivative financial instruments, which are carried at fair value.

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.

The Group has adopted IFRS 9 on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provision under IFRS 9, comparative figures have not been restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

The accounting policies were changed to comply with IFRS 9 which addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduced new rules for hedge accounting and a new impairment model for financial assets.

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	RCPS	OFA	FVPL	FVOCI	Total
	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million
<b>Opening balance – IAS 39</b>	127,218	22,976	5,624	–	–	155,818
Reclassification of AFS to FVPL	(68,703)	–	–	68,703	–	–
Reclassification of AFS to FVOCI	(58,515)	–	–	–	58,515	–
Reclassification of RCPS to FVPL	–	(22,976)	–	22,976	–	–
Reclassification of OFA to FVPL	–	–	(3,818)	3,818	–	–
	<u>–</u>	<u>–</u>	<u>(3,818)</u>	<u>3,818</u>	<u>–</u>	<u>–</u>
<b>Opening balance – IFRS 9</b>	<u>–</u>	<u>–</u>	<u>1,806</u>	<u>95,497</u>	<u>58,515</u>	<u>155,818</u>

The main effects resulting from this reclassification on the Group's equity are as follows:

At 1 January 2018	Effect on AFS reserves	Effect on FVOCI reserves	Effect on retained earnings
	RMB' Million	RMB' Million	RMB' Million
<b>Opening balance – IAS 39</b>	31,152	–	202,682
Reclassification of AFS to FVPL	(16,210)	–	16,210
Reclassification of AFS to FVOCI	(14,942)	14,942	–
	<u>(31,152)</u>	<u>14,942</u>	<u>16,210</u>
<b>Total impact</b>	<u>(31,152)</u>	<u>14,942</u>	<u>16,210</u>
<b>Opening balance – IFRS 9</b>	<u>–</u>	<u>14,942</u>	<u>218,892</u>

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.

## 2 Segment information

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 for individual and corporate users, cloud services and other services.

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

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	<u>176,646</u>	<u>58,079</u>	<u>77,969</u>	<u>312,694</u>
Gross profit	<u>102,685</u>	<u>20,806</u>	<u>18,629</u>	<u>142,120</u>
Depreciation	1,996	1,376	3,658	7,030
Amortisation	<u>11,663</u>	<u>12,462</u>	<u>573</u>	<u>24,698</u>

  

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

### 3 Other gains, net

	2018 RMB'Million	2017 RMB'Million
Net fair value gains on FVPL (a)	28,738	—
Impairment provision for investee companies and intangible assets arising from acquisitions (b)	(17,577)	(2,794)
Subsidies and tax rebates	3,456	3,971
Net gains on disposals and deemed disposals of investee companies	2,932	13,518
Net fair value gains on other financial instruments	1,019	4,298
Donations to Tencent Charity Funds	(730)	(820)
Dividend income	686	1,713
Others (c)	<u>(1,810)</u>	<u>254</u>
	<u><b>16,714</b></u>	<u><b>20,140</b></u>

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 IPO.
- (b) The impairment provision for investee companies and intangible assets arising from acquisitions mainly comprised the following:

	2018 RMB'Million	2017 RMB'Million
Investments in associates	14,069	1,277
Investments in joint ventures	2,328	—
Intangible assets arising from acquisitions	1,180	239
Investments in redeemable instruments of associates	—	607
Available-for-sale financial assets	<u>—</u>	<u>671</u>
	<u><b>17,577</b></u>	<u><b>2,794</b></u>

- (c) 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.

#### 4 Expenses by nature

	2018	2017
	RMB'Million	RMB'Million
Employee benefits expenses (a)	<b>42,153</b>	34,866
Content costs (excluding amortisation of intangible assets)	<b>39,061</b>	28,177
Channel and distribution costs	<b>32,821</b>	25,109
Bandwidth and server custody fees	<b>15,818</b>	11,203
Promotion and advertising expenses	<b>19,806</b>	13,661
Operating lease rentals in respect of office buildings	<b>1,614</b>	1,335
Travelling and entertainment expenses	<b>1,450</b>	1,040
Amortisation of intangible assets (b)	<b>25,616</b>	18,622
Depreciation of property, plant and equipment	<b>8,396</b>	4,850

Note:

- (a) During the year ended 31 December 2018, the Group incurred expenses for the purpose of R&D 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.



## **5 Income Tax expense**

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2018 and 2017.

### **(b) Hong Kong profit tax**

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the years ended 31 December 2018 and 2017.

### **(c) PRC corporate income tax**

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the PRC for the years ended 31 December 2018 and 2017. The general PRC CIT 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 CIT rate of 15% for the years ended 31 December 2018 and 2017. Moreover, according to announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, a software enterprise that qualifies as a national key software enterprise is subject to a preferential CIT rate of 10%.

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

### **(d) Corporate income tax in other 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%.

**(e) Withholding tax**

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

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

	<b>2018</b>	2017
	<b>RMB'Million</b>	RMB'Million
Current income tax	<b>15,091</b>	15,154
Deferred income tax	<u>(609)</u>	<u>590</u>
	<u><b>14,482</b></u>	<u>15,744</u>

**6 Earnings per share**

**(a) Basic**

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

	<b>2018</b>	2017
Profit attributable to equity holders of the Company (RMB'Million)	<u><b>78,719</b></u>	<u>71,510</u>
Weighted average number of ordinary shares in issue (million shares)	<u><b>9,444</b></u>	<u>9,411</u>
Basic EPS (RMB per share)	<u><b>8.336</b></u>	<u>7.598</u>

**(b) Diluted**

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the 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)	<u>78,719</u>	<u>71,510</u>
Weighted average number of ordinary shares in issue (million shares)	9,444	9,411
Adjustments for share options and awarded shares (million shares)	<u>124</u>	<u>125</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,568</u>	<u>9,536</u>
Diluted EPS (RMB per share)	<u>8.228</u>	<u>7.499</u>

## 7 Dividends

The dividends amounting to RMB6,776 million (2017: RMB5,052 million) were paid during the year ended 31 December 2018.

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

## 8 Investments in associates

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Investments in associates		
- Listed entities (Note)	130,633	60,935
- Unlisted entities	<u>88,582</u>	<u>52,844</u>
	<u>219,215</u>	<u>113,779</u>

Note:

As at 31 December 2018, the fair value of the investments in associates which are listed entities was RMB187,339 million (31 December 2017: RMB156,968 million).

Movement of investments in associates is analysed as follows:

	2018	2017
	RMB'Million	RMB'Million
<b>At beginning of the year</b>	<b>113,779</b>	70,042
Additions (a)	<b>40,918</b>	19,122
Transfers (b)	<b>71,593</b>	20,825
Deemed disposal gains	<b>1,661</b>	9,892
Share of profit of associates	<b>1,301</b>	730
Share of other comprehensive income of associates	<b>24</b>	907
Share of other changes in net assets of associates	<b>2,861</b>	—
Impairment provision (c)	<b>(14,069)</b>	(1,277)
Dividends	<b>(908)</b>	(312)
Disposals	<b>(725)</b>	(253)
Currency translation differences	<b>2,780</b>	(5,897)
<b>At end of the year</b>	<b><u>219,215</u></b>	<b><u>113,779</u></b>

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 16);
  - (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 investments in this investee company of approximately RMB48,173 million was classified as FVPL (Note 8(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.
- (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 8(a)(v) and Note 9(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) 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. The impairment losses mainly resulted from revisions of long-term financial outlook of the associates and changes in the market environment to which the associates is principally engaged.

## 9 Financial assets at fair value through profit or loss

FVPL include the following:

	As at 31 December 2018 RMB' Million
<b>Included in non-current assets:</b>	
Investments in listed entities	9,123
Investments in unlisted entities	78,234
Others	<u>4,345</u>
	<u>91,702</u>
<b>Included in current assets:</b>	
Treasury investments and others	<u>6,175</u>
	<u><u>97,877</u></u>

Movement of FVPL is analysed as follows:

	2018 RMB' Million
<b>At beginning of the year</b>	—
Adjustment on adoption of IFRS 9 (Note 1)	95,497
Additions (a)	60,807
Transfers (b)	(78,816)
Changes in fair value (Note 3(a))	28,738
Disposals (c)	(14,805)
Currency translation differences	<u>6,456</u>
<b>At end of the year</b>	<u><u>97,877</u></u>

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 8(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 8(a)(v) above;
  - (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 out 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 businesses.
- (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 8(b) above, the transfers mainly include:
- (i) the Group designated certain investments with an aggregate amount of approximately RMB3,577 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.

## 10 Financial assets at fair value through other comprehensive income

FVOCI include the following:

	<b>As at 31 December 2018 RMB'Million</b>
Equity investments in listed entities	
- United States	33,120
- Mainland China	5,365
- France	<u>3,093</u>
	<u>41,578</u>
Others	<u>1,941</u>
	<u><u>43,519</u></u>

Movement of FVOCI is analysed as follows:

	<b>2018 RMB'Million</b>
<b>At beginning of the year</b>	—
Adjustment on adoption of IFRS 9 (Note 1)	58,515
Additions (a)	17,689
Transfers (Note 9(b))	3,577
Changes in fair value	(16,578)
Disposals (b)	(22,200)
Currency translation differences	<u>2,516</u>
<b>At end of the year</b>	<u><u>43,519</u></u>

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.

## 11 Accounts receivable

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

	<b>As at 31 December</b>	
	<b>2018</b>	2017
	<b>RMB'Million</b>	RMB'Million
0 ~ 30 days	<b>11,200</b>	4,399
31 ~ 60 days	<b>7,695</b>	6,394
61 ~ 90 days	<b>4,201</b>	2,259
Over 90 days	<u><b>5,331</b></u>	<u>3,497</u>
	<u><b>28,427</b></u>	<u>16,549</u>

Receivable balances as at 31 December 2018 and 31 December 2017 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 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.

## 12 Share option and share award schemes

### (a) Share option schemes

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

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

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

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
<b>At 1 January 2018</b>	<b>HKD179.90</b>	<b>55,510,248</b>	<b>HKD31.70</b>	<b>2,500,000</b>	<b>HKD273.80</b>	<b>9,155,860</b>	<b>67,166,108</b>
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	HKD136.67	(44,403)	–	–	HKD298.36	(178,062)	(222,465)
<b>At 31 December 2018</b>	<b>HKD185.25</b>	<b><u>51,499,010</u></b>	<b>–</b>	<b><u>–</u></b>	<b>HKD374.52</b>	<b><u>36,277,234</u></b>	<b><u>87,776,244</u></b>
<b>Exercisable as at 31 December 2018</b>	<b>HKD160.50</b>	<b><u>22,419,156</u></b>	<b>–</b>	<b><u>–</u></b>	<b>HKD274.86</b>	<b><u>1,760,025</u></b>	<b><u>24,179,181</u></b>
<b>At 1 January 2017</b>	<b>HKD120.95</b>	<b>31,247,436</b>	<b>HKD31.70</b>	<b>2,500,000</b>	<b>–</b>	<b>–</b>	<b>33,747,436</b>
Granted	HKD225.44	28,526,215	–	–	HKD273.79	9,219,035	37,745,250
Exercised	HKD49.05	(4,102,812)	–	–	–	–	(4,102,812)
Lapsed	HKD142.65	(160,591)	–	–	HKD272.36	(63,175)	(223,766)
<b>At 31 December 2017</b>	<b>HKD179.90</b>	<b><u>55,510,248</u></b>	<b>HKD31.70</b>	<b><u>2,500,000</u></b>	<b>HKD273.80</b>	<b><u>9,155,860</u></b>	<b><u>67,166,108</u></b>
<b>Exercisable as at 31 December 2017</b>	<b>HKD118.70</b>	<b><u>13,152,006</u></b>	<b>HKD31.70</b>	<b><u>1,250,000</u></b>	<b>–</b>	<b><u>–</u></b>	<b><u>14,402,006</u></b>

During the year ended 31 December 2018, 3,215,800 options were granted to one director of the Company (2017: 5,250,000 options were granted to one director of the Company).

**(b) Share award schemes**

The Company has adopted 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:

	<b>Number of awarded shares</b>	
	<b>2018</b>	<b>2017</b>
<b>At beginning of the year</b>	<b>63,636,254</b>	86,365,812
Granted	<b>20,940,149</b>	19,071,975
Lapsed	<b>(2,882,349)</b>	(3,227,554)
Vested and transferred	<b>(31,446,159)</b>	<b>(38,573,979)</b>
<b>At end of the year</b>	<b><u>50,247,895</u></b>	<b><u>63,636,254</u></b>
<b>Vested but not transferred as at the end of the year</b>	<b><u>45,432</u></b>	<b><u>159,893</u></b>

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).

**13 Accounts payable**

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

	<b>As at 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>RMB'Million</b>	<b>RMB'Million</b>
0 ~ 30 days	<b>56,506</b>	38,420
31 ~ 60 days	<b>6,264</b>	3,030
61 ~ 90 days	<b>1,557</b>	2,050
Over 90 days	<b><u>9,408</u></b>	<b><u>6,585</u></b>
	<b><u>73,735</u></b>	<b><u>50,085</u></b>

## 14 Borrowings

	<b>As at 31 December</b>	
	<b>2018</b>	2017
	<b>RMB'Million</b>	RMB'Million
<b>Included in non-current liabilities:</b>		
Non-current portion of long-term USD bank borrowings, unsecured (a)	<b>70,938</b>	76,326
Non-current portion of long-term RMB bank borrowings, - unsecured (a)	<b>11,189</b>	4,459
- secured (a)	—	475
Non-current portion of long-term HKD bank borrowings, unsecured (a)	<b>5,310</b>	834
	<b><u>87,437</u></b>	<u>82,094</u>
<b>Included in current liabilities:</b>		
USD bank borrowings, unsecured (b)	<b>16,403</b>	1,307
HKD bank borrowings, unsecured (b)	<b>3,368</b>	14,293
RMB bank borrowings, unsecured (b)	<b>628</b>	—
Current portion of long-term USD bank borrowings, unsecured (a)	<b>5,628</b>	66
Current portion of long-term RMB bank borrowings, - unsecured (a)	<b>332</b>	30
- secured (a)	<b>475</b>	—
	<b><u>26,834</u></b>	<u>15,696</u>
	<b><u><u>114,271</u></u></b>	<u><u>97,790</u></u>

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.
- (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.

## 15 Notes payable

	<b>As at 31 December</b>	
	<b>2018</b>	2017
	<b>RMB'Million</b>	RMB'Million
<b>Included in non-current liabilities:</b>		
Non-current portion of long-term USD notes payable	<b>48,501</b>	26,697
Non-current portion of long-term HKD notes payable	<u><b>2,797</b></u>	<u>2,666</u>
	<u><b>51,298</b></u>	<u>29,363</u>
<b>Included in current liabilities:</b>		
Current portion of long-term USD notes payable	<b>13,720</b>	3,919
Current portion of long-term HKD notes payable	<u>—</u>	<u>833</u>
	<u><b>13,720</b></u>	<u>4,752</u>
	<u><b>65,018</b></u>	<u>34,115</u>

Note:

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.

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:

	<b>Amount</b>	<b>Interest Rate</b>	<b>Due</b>
	<b>(USD'Million)</b>	<b>(per annum)</b>	
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	<u>1,000</u>	3.925%	2038
	<u><u>5,000</u></u>		

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.

## **16 Step-up acquisition of New Classics Media**

On 31 October 2018 (the “Acquisition Date”), the Group’s non-wholly owned subsidiary, 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.

**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 8(a)(ii))	<u>2,945</u>

**9,209**

Non-controlling interests	<u>(4,070)</u>
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**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 rising 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	<u>(231)</u>

**Total identifiable net assets**

**2,274**

Non-controlling interests	(4,068)
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Goodwill	<u>6,933</u>
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**5,139**

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 as 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 occurred 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.



## OTHER INFORMATION

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

During the year ended 31 December 2018, the Company repurchased 2,848,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD886.8 million before expenses. The repurchased shares were subsequently cancelled. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in 2018	No. of shares purchased	Purchase consideration per share		Aggregate consideration paid HKD
		Highest price paid HKD	Lowest price paid HKD	
September	1,668,500	333.40	306.00	535,627,842
October	<u>1,179,500</u>	322.80	265.20	<u>351,174,951</u>
Total	<u>2,848,000</u>			<u>886,802,793</u>

Save as disclosed above and in the “Financial Information” section, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2018.

### Closure of Register of Members

#### (a) Entitlement to Attend and Vote at the 2019 AGM

The register of members of the Company will be closed from Thursday, 9 May 2019 to Wednesday, 15 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2019 AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 8 May 2019.

## **(b) Entitlement to the Proposed Final Dividend**

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Wednesday, 22 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 May 2019.

## **Employee and Remuneration Policies**

As at 31 December 2018, the Group had 54,309 employees (2017: 44,796). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the year ended 31 December 2018 was RMB42,153 million (2017: RMB34,866 million).

## **Audit Committee**

The Audit Committee, together with the Auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2018. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

## **Auditor's Procedures Performed on this Results Announcement**

The figures in respect of the announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

## **Compliance with the Corporate Governance Code**

Save as disclosed in the 2018 interim report and the corporate governance report in the 2017 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2018, complied with the code provisions as set out in the CG Code.

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

## **Publication of the Annual Results and Annual Report**

All the financial and other related information of the Company required by the Listing Rules will be published on the website of each of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.tencent.com](http://www.tencent.com)) in due course.

## **APPRECIATION**

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

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

Hong Kong, 21 March 2019

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

*Executive Directors:*

Ma Huateng and Lau Chi Ping Martin;

*Non-Executive Directors:*

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

*Independent Non-Executive Directors:*

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

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

## DEFINITION

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

<b>Term</b>	<b>Definition</b>
“2019 AGM”	the annual general meeting of the Company to be held on 15 May 2019 or any adjournment thereof
“AFS”	available-for-sale financial assets
“AI”	artificial intelligence
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“BOC”	Bank of China Limited
“CCB”	China Construction Bank Corporation
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“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 Stock Exchange
“CIT”	corporate income tax
“CMB”	China Merchants Bank Co., Ltd.
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DAU”	daily active user accounts
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation

“Epic Games”	Epic Games, Inc., a Maryland corporation organized under the general laws of the State of Maryland, US
“EPS”	earnings per share
“FinTech”	financial technology
“FVOCI”	financial assets at fair value through other comprehensive income
“FVPL”	financial assets at fair value through profit or loss
“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong InterBank Offered Rate
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IaaS”	Infrastructure-as-a-Service
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“IPO”	initial public offering
“KPL”	King Pro League
“LBS”	Location Based Service
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“Meituan Dianping”	Meituan Dianping, a limited liability company incorporated in the Cayman Islands and the shares of which are listed on the Stock Exchange

“MOBA”	Multiplayer Online Battle Arena
“O2O”	online-to-offline, or offline-to-online
“OFA”	other financial assets
“PaaS”	Platform-as-a-Service
“PC”	personal computer
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PUBG”	PlayerUnknown’s Battlegrounds
“QR Codes”	Quick Response Codes
“R&D”	research and development
“RCPS”	investments in redeemable instruments of associates
“Riot Games”	Riot Games, Inc., a company established in US
“RMB”	the lawful currency of the PRC
“ROI”	return on investment
“Sea”	Sea Limited, a company headquartered in Singapore and listed on the New York Stock Exchange
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013, as amended

“SME”	Small and medium enterprise
“Sogou”	Sogou Inc., a company incorporated in the Cayman Islands and listed on the New York Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland
“Tencent Charity Funds”	charity funds established by the Group
“TME”	Tencent Music Entertainment Group, a limited liability company incorporated under the laws of the Cayman Islands and listed on the New York Stock Exchange
“United States” or “US”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services
“Yixin”	Yixin Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange