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Tencent 腾讯

TENCENT HOLDINGS LIMITED

騰 訊 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

UPDATE OF GLOBAL MEDIUM TERM NOTE PROGRAMME

INCREASE OF GLOBAL MEDIUM TERM NOTE PROGRAMME AGGREGATE CUMULATIVE MAXIMUM LIMIT FROM US$10 BILLION TO US$20 BILLION

PROPOSED ISSUE OF NOTES UNDER THE GLOBAL MEDIUM TERM NOTE PROGRAMME

AND

EXTRACT OF FINANCIAL INFORMATION

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

The Board is pleased to announce that on 1 April 2019, the Company has updated the Programme to include, among other things, the Company's recent corporate and financial information and increased the Programme Limit from US$10 billion to US$20 billion (or its equivalent in other currencies).

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

As at the date of this announcement, the Company has approximately US$9.513 billion of the Notes outstanding under the Programme.

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

The Company has appointed Deutsche Bank as the arranger under the Programme.

Deutsche Bank, HSBC, Goldman Sachs and Morgan Stanley are the joint global coordinators in respect of the Proposed Notes Issue. The Company intends to use the net proceeds for general corporate purposes.

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

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

UPDATE AND INCREASE OF THE PROGRAMME LIMIT

Introduction

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

The Board is pleased to announce that on 1 April 2019, the Company has updated the Programme to include, among other things, the Company's recent corporate and financial information and increased the Programme Limit from US$10 billion to US$20 billion (or its equivalent in other currencies).

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

As at the date of this announcement, the Company has approximately US$9.513 billion of the Notes outstanding under the Programme.

Listing

An application has been made by the Company to the Stock Exchange for the listing of the Programme with the increased Programme Limit of US$20 billion within 12 months after 1 April 2019 by way of debt issues (to certain professional investors only). In relation to any issue of the Notes, the Company has the option to agree with the relevant dealer(s) to list the Notes on the Stock Exchange or any other recognised stock exchanges.

Proposed use of net proceeds

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

PROPOSED NOTES ISSUE

Introduction

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

The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interest. Deutsche Bank, HSBC, Goldman Sachs and Morgan Stanley are the joint global coordinators in respect of the Proposed Notes Issue. The Company intends to use the net proceeds for general corporate purposes.

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

Listing

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

GENERAL

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

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

DEFINITION

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

Term	**Definition**
"Board"	the board of directors of the Company
"Company"	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the Shares of which are listed on the SEHK
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch
"Goldman Sachs"	Goldman Sachs (Asia) L.L.C.
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HSBC"	The Hongkong and Shanghai Banking Corporation Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Morgan Stanley"	Morgan Stanley & Co. International plc

"Non-U.S. Persons"	persons who are not U.S. persons as defined under Regulation S
"Notes"	the medium term notes that may be issued from time to time by the Company to professional investors only under the Programme
"Pricing Supplement"	the document which sets out the terms specific to each series of the Notes to be issued under the Programme
"Programme"	the global medium term note programme established by the Company by way of a dealer agreement dated 10 April 2014 (as amended and restated by an amended and restated dealer agreement dated 24 April 2015 which was further amended on 1 April 2019) and as updated and modified from time to time
"Programme Limit"	the limit of aggregate principal amount of the Notes which may be outstanding at any one time under the Programme
"Proposed Notes Issue"	the proposed issue of the Notes
"Regulation S"	Regulation S under the U.S. Securities Act
"Rule 144A"	Rule 144A under the U.S. Securities Act
"Share(s)"	the ordinary share(s) with par value of HK$0.00002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange" or "SEHK"	The Stock Exchange of Hong Kong Limited
"U.S." or "United States"	the United States of America, its territories and possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"US$"	United States dollars, the lawful currency of the United States

By Order of the Board
Ma Huateng
Chairman

1 April 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 the 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.

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

The following is a discussion of our financial condition and results of operations as at and for the years ended 31 December 2016, 2017 and 2018, and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our audited consolidated financial statements included in this Offering Circular beginning on page F-2. Our consolidated financial statements have been prepared in accordance with IFRS.

In preparing the audited consolidated financial statements as at and for the year ended 31 December 2018, the Company has adopted the new accounting standards with effect from 1 January 2018 and has not restated the prior years' financial statements. Therefore, the audited consolidated financial statements as at and for the year ended 31 December 2018 may not be comparable with the consolidated financial statements as at and for the years ended 31 December 2016 and 2017. For the impact on adoption of the new accounting standards, please refer to Note 2.2 to the Company's audited consolidated financial statements as at and for the year ended 31 December 2018 included elsewhere in this Offering Circular. See "Risk Factors — Risks Relating to Notes Issued under the Programme — Our financial statements for the year ended 31 December 2018 may not be comparable with the financial statements for previous years".

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

OVERVIEW

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

We operate the largest social communities in China for both mobile and PC. Our massive social communication platforms provide a foundation for our online community and serve as a gateway for our VAS. We had the largest number of daily and monthly active users among social communities on both mobile and PC in December 2018, according to iResearch. In particular, *Weixin* and *WeChat*, and

Mobile QQ accounted for 85.90% and 53.77% of MAU respectively for mobile social networking services, in the same period, according to iResearch. *Weixin* and *WeChat* have a combined MAU of 1,097.6 million, and *QQ* has a total MAU of 807.1 million and smart device MAU of 699.8 million as at 31 December 2018. Our social community users are also the most engaged in China, with *Weixin* and *WeChat* users accounting for 75.41% of monthly time spent on mobile social networking services in December 2018, according to iResearch.

Our social products link our users to a vast array of best-in-class digital content and multimedia services across the globe. We are the leader in the mobile and PC game markets in China and in the world, as measured by users and revenues. We have developed and published highly popular games in a variety of genres and have recently expanded into tactical tournaments. We have also established leading digital content platforms that include video, literature, news, music and others, generating both subscription and usage-based revenues. Consequently, our substantial and engaged user base, combined with our unique data insights, present an attractive proposition to advertisers.

Our expansive product offerings, advanced technologies and infrastructure services form a hub for fulfilling people's lifestyle needs, including social communication, entertainment, information, O2O and FinTech services. We further broaden the types and the number of services offered to our users by allowing third parties and partners to access and offer services and products on our open platforms. Through strategic partnerships with category leaders, we continue to expand our ecosystem and deepen engagement with our users. We, including our affiliates such as *JD.com*, *Meituan Dianping* and *Sogou*, have large platforms across a variety of Internet categories, and collectively we have 15 out of the top 30 applications ranked by MAU in December 2018 in China, according to Analysys.

Our payment activity has been expanding from social to commercial payment, and from online to offline payment transactions. Our social payment tools such as red packets and bill sharing simplify peer-to-peer transfers, whereas our commercial payment tools facilitate fast and seamless experiences for both eCommerce transactions and an increasing range of offline consumption scenarios, including taxi booking, movies and event ticketing, restaurant dining, shopping at supermarkets and convenience stores, and others. As such, our commercial payment transaction volume is growing rapidly and diversifying from large online merchants to a broad range of offline merchants. Our mobile payment services also help merchants track advertising effectiveness and provide a platform for financial institutions to distribute FinTech products. Our robust payment infrastructure provides high levels of payment security, service reliability and transaction speed, and continues to improve.

Tencent Cloud is a high-performance cloud service that powers our ecosystem and is offered to third party enterprises to meet their computing, storage and other technology infrastructure needs. *Tencent Cloud* is built with advanced technologies in cloud computing, big data, artificial intelligence, security and location-based services. Our cloud service business has enjoyed robust growth and maintains a leading market position in verticals such as online games, video and live broadcast. We have further enlarged our cloud presence in other sectors such as retail, financial services and transportation. Our cloud services business is the foundation for our smart industry solutions, helping to digitally transform traditional industries.

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

- ***Value-added Services*** — Our VAS business consists mainly of online games and social networks.

    - ***Online games*** — We are the largest online games company in the world by revenues with 14% global market share and 52.1% China market share in 2018, according to Newzoo and iResearch, respectively. We have strong in-house development capabilities, demonstrated by our highly acclaimed in-house games in a variety of genres such as battle arena (*Honour of Kings, League of Legends*), racing (*QQ Speed Mobile*), strategy (*King of Chaos*) and tactical tournament (*PUBG MOBILE*). We are also the partner of choice for game publishers due to our leading distribution capabilities in China and globally.

    - ***Social networks*** — We are a leading provider of social networks in China, with clear leadership in social communication platforms, including *QQ, Qzone, Weixin* and *WeChat*. Our social networks generate revenues from a diverse and comprehensive range of digital content services such as video, literature and music, as well as virtual item sales and others.

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

- ***Others*** — Our other services include FinTech, cloud and other services. We are a market leading mobile payment platform in China with a daily average of over one billion payment transactions in 2018. Combining our advanced data analytics and artificial intelligence technologies, we have built an expanding portfolio of cloud products and customised industry solutions, accelerating our expansion in different industries.

As an industry leader and global pioneer of innovative technology solutions, our platforms and services connect users, content creators, enterprises and developers. We have built strong relationships with key strategic partners, connecting our own and our partners' quality content and services to consumers. We further extend this strategy to expand our businesses from the Consumer Internet into the Industrial Internet to help enterprises adapt to the digital economy and optimise operations. Leveraging our massive user base, high traffic platforms, enterprise services, and advanced cloud and data technologies, we help different industries connect with customers and business partners to capitalise on the continued growth in Internet and mobile usage.

In addition to growing our core businesses organically, we make strategic investments in best-in-class companies. As we focus our management attention and company resources on our own core platforms, we also capture emerging opportunities in adjacent verticals through investee companies. We have more than 100 investee companies valued at over US$1 billion each, including 60 that have gone public by the end of 2018. We enrich our IP portfolio including games, video, music and literature via upstream investments, and broaden user reach and engagement via investments in vertical platforms. We work with businesses that can expand our offerings to meet evolving user needs, and accelerate the adoption of our enterprise services and products, such as O2O and smart retail companies, which has helped expand our payment service penetration and advertiser base. We use investments as a tool for better understanding frontier technologies which will become important to our future, such as 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. A number of our investments have grown and managed to achieve separate initial public offerings in 2017 and 2018:

- Among our subsidiaries, *China Literature*, a market leading online literature platform in China as measured by the scale and quality of writers, readers and literary content offerings, completed its initial public offering on the SEHK in November 2017, raising HK$7,235 million in net proceeds from its share offering; Tencent Music Entertainment Group (*TME*), the leading online music entertainment platform in China, completed its initial public offering on the New York Stock Exchange in December 2018, raising approximately US$509 million in net proceeds from its offering of American Depositary Shares.

- Our other investments such as *Bilibili, Huya*, *iDreamSky, Meituan Dianping, NIO, Pinduoduo, Qutoutiao*, *Sea*, *Sogou* and *Tongcheng-Elong* were listed on the SEHK, New York Stock Exchange or NASDAQ during 2017 and 2018.

We commenced our business in November 1998 and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2018, our total revenues were RMB312,694 million (US$45,479 million) and our profit for the year was RMB79,984 million (US$11,633 million), an increase of 32% and 10%, over the year ended 31 December 2017, respectively. As at 31 December 2018, our cash and cash equivalents, as well as term deposits and others amounted to RMB167,119 million (US$24,306 million).

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

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

The growth of our business and revenues depends on our ability to deepen user engagement and further increase the monetisation of our vast user base. We have seen a modest growth in our *Weixin* and *WeChat* user base and a migration to smart devices from PC for our *QQ* users. As at 31 December 2018, combined MAU of *Weixin* and *WeChat* reached 1,097.6 million, an increase of 11%, from 988.6 million as at 31 December 2017. As at 31 December 2018, *QQ* has a total MAU of 807.1 million, of which smart device MAU was 699.8 million.

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

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

We believe that the size of our user base also serves as the foundation for converting non-paying users into paying users. We have accumulated expertise in cross-marketing our services and products across our massive user base and have been successful in migrating a large number of our users for *QQ*, *Qzone, Weixin* and *WeChat* and other free services to fee-based services and products such as QQ Membership, *Qzone VIP* and *Tencent Video VIP.* In addition, through creating a highly engaging and interactive social experience, we also generate revenues from selling virtual items and gifts. Through leveraging our comprehensive ecosystem, scale and data insights, we drive relevant and targeted advertising to generate higher returns for advertisers.

Our diverse collection of content, including differentiated and exclusive content, on our major digital media platforms, including video, literature, news, music and others, help attract users and drive conversion into paying users. Our ability to secure high quality and wide ranging content that match users' tastes and preferences will affect the monetisation capability and financial performance of our digital media platforms. These in turn helps to support the growth of our VAS revenues.

For the years ended 31 December 2016, 2017 and 2018, our VAS revenues were RMB107,810 million, RMB153,983 million and RMB176,646 million (US$25,692 million), respectively.

Ability to maintain our market position and protect brand equity

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

We have also maintained our leadership in the online games market in China and globally leveraging the success of our in-house and licensed titles. We rely on the success of in-house and third party game titles. The top PC client game in China, *League of Legends*, was developed in-house by our subsidiary, Riot Games, and the top smart phone game in China, *Honour of Kings*, was developed in-house by our department, *Timi Studio*. We reinforced our position as the preferred Chinese publisher for local and overseas game developers, including *Electronic Arts*, *Activision Blizzard*, *Take2* and *Nexon for PC* client games, as well as *Shanda Games*, *Changyou*, *Giant Interactive* and *Kingsoft* for smart phone games. Internationally, we expanded our presence through investments in companies such as *Supercell Oy*, and we also published a few of our internally developed smart phone games in Southeast Asia. Our capability of maintaining the large user base and deepening user engagement of our social communication platforms are the keys to our ability to compete effectively and maintain our leading brand and market position as well as attract and expand relationships with our advertising customers and, in turn, grow our revenues.

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

Ability to develop, acquire and licence content and applications

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

Ability to maintain relationships with strategic partners

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

The content costs (excluding amortisation of intangible assets), plus channel costs and distribution costs and bandwidth and server custody fees, were RMB38,743 million, RMB64,489 million and RMB87,700 million (US$12,755 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

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

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

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

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

Our social networks business also represents a key growth driver for our VAS business. To maintain our leadership position and financial success of our social platforms, we must continue to secure high quality, relevant and diverse digital content that is attractive to our users. For instance, *TME* has strategic distribution agreements with the three largest global music labels, namely *Universal Music Group*, *Warner Music Group* and *Sony Music Group*. In addition, *Tencent Pictures* and *Penguin Pictures* are playing important roles in Tencent's strategy for the cultural and creative sectors, including in-depth collaboration with *Tencent Video*.

Ability to innovate and compete effectively against market competitors

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

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

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

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

PRC regulations affecting the Internet and telecommunications industries

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

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

Macroeconomic conditions in the markets where we operate

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

The continuing maturation of the Chinese economy has been attended by a gradual slowdown in economic growth. The World Bank forecasts that the Chinese economy will grow 6.2% in 2019. Although we strive to price most of our products and services at an affordable level for average users, which also results in our earnings and cash flows being more resilient to economic cycles, macroeconomic conditions such as concerns about potential overinvestment and overleveraging in the Chinese economy, the Eurozone sovereign debt crisis, and concerns about a renewed global recession similar to the economic crisis in 2008 and trade disputes, may impact the growth of the Chinese economy and China-focused businesses like us. The advertising industry is particularly sensitive to economic downturns and a negative economic outlook could cause expenditures for Internet access and consumer discretionary spending to decrease, thereby affecting our online advertising businesses. Further, it is unclear how Chinese economic conditions could impact PRC regulations, taxation or monetary policies, which could also affect our growth strategies, business operations and access to additional capital.

Recruitment, compensation and retention of employees

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

The number of our full-time employees was 38,775, 44,796 and 54,309 as at 31 December 2016, 2017 and 2018, respectively. As our workforce expands we incur additional staff costs as costs of revenues and operating expenses to our business. Our total remuneration costs were RMB23,433 million, RMB34,866 million and RMB42,153 million (US$6,131 million) for the years ended 31 December 2016, 2017 and 2018, respectively. To further our growth, we will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation and invest in programmes such as training, bonus and share options programmes, which would further affect our staff costs.

BASIS OF PRESENTATION

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

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

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenues

We generate our revenues primarily from three lines of business:

- VAS;
- online advertising; and
- others.

Our revenues were RMB151,938 million, RMB237,760 million and RMB312,694 million (US$45,479 million) for the years ended 31 December 2016, 2017 and 2018, respectively. The following table sets forth our revenues by line of business for the years indicated:

	Year ended 31 December						
	2016		2017		2018		
	(RMB in millions)	*% of Total Revenues*	*(RMB in millions)*	*% of Total Revenues*	*(RMB in millions)*	*(US$ in millions)*	*% of Total Revenues*
Revenues							
VAS	107,810	71%	153,983	65%	176,646	25,692	56%
Online advertising	26,970	18%	40,439	17%	58,079	8,447	19%
Others	17,158	11%	43,338	18%	77,969	11,340	25%
Total revenues	151,938	100%	237,760	100%	312,694	45,479	100%

VAS

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

We derive a substantial portion of online games revenues from virtual item sales. We have an extensive portfolio of market leading game titles across genres on both smart phone and PC. As at 31 December 2018, on our PC platform, we had over 20 ACG game titles and over 20 MMOG game titles. As at 31 December 2018, we offered over 100 smart phone games titles.

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

Revenues from VAS were RMB107,810 million, RMB153,983 million and RMB176,646 million (US$25,692 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

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

Online advertising

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

Revenues from online advertising were RMB26,970 million, RMB40,439 million and RMB58,079 million (US$8,447 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

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

Others

Revenues from our other businesses include provision of FinTech, cloud services and other services. Revenues from others were RMB17,158 million, RMB43,338 million and RMB77,969 million (US$11,340 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

The significant revenue growth from our other businesses is primarily driven by the growth of FinTech and cloud services.

Cost of revenues

Our cost of revenues was RMB67,439 million, RMB120,835 million and RMB170,574 million (US$24,809 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

Cost of revenues consists of the direct costs for operating and offering our services and products, which consist primarily of content costs, bank handling fees, channel costs, bandwidth and server custody fees, equipment depreciation and other direct costs. Staff costs that directly relate to the provision of our services and products are also included in cost of revenues.

Interest income

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

Other gains, net

Other gains, net consist primarily of net gains/losses on disposals/deemed disposals of investee companies, dividend income, subsidies and tax rebates, donation to the Tencent Charity Funds, net fair value gains on other financial instruments, net fair value gains on FVPL, and impairment provision for investee companies and intangible assets arising from acquisitions.

Selling and marketing expenses

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

General and administrative expenses

General and administrative expenses primarily consist of research and development expenses, related staff costs, office rental, travel and entertainment expenses, consulting fees, office maintenance and other general office expenses.

Finance costs, net

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

Income tax expense

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

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

We were not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2016, 2017 and 2018.

(ii) Hong Kong profit tax

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the years ended 31 December 2016, 2017 and 2018.

(iii) PRC corporate income tax

PRC corporate income tax has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of our entities established in the PRC for the years ended 31 December 2016, 2017 and 2018. The general PRC corporate income tax rate is 25% in 2016, 2017 and 2018.

Certain of our subsidiaries in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2016, 2017 and 2018. 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 corporate income tax rate of 10%.

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

(iv) Corporate income tax in other countries

Income tax on profit arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profit for the year at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 36% for the years ended 31 December 2016, 2017 and 2018.

(v) Withholding tax

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

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

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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

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

Revenue Recognition

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

VAS

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

Revenues from VAS is recognised when we satisfy its performance obligations by rendering services. Given we have an explicit or implicit obligation to maintain the virtual products/items operated on our platforms and allow users to gain access to them, revenues are recognised over the estimated lifespans of the respective virtual products/items. The estimated lifespans of different virtual products/items are determined by the management based on either the expected user relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective term of virtual products/items.

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

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

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

We adopt different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

Online advertising

Online advertising revenues mainly comprise revenues derived from media advertisements and from social and others advertisements, depending on the placement of advertising properties and inventories.

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

Revenues from display-based advertising are recognised on number of display/impression basis, or ratably over the respective contractual term with the advertisers or their advertising agencies depending on the contractual measures. Revenues from performance-based advertising are recognised when relevant specific performance measures are fulfilled. Where the contracts include multiple performance obligations, we allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

Other revenues

Our other revenues are primarily derived from provision of FinTech services, cloud services, television services and film production services and other businesses. We recognise other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods.

Share-based compensation benefits

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

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

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

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

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

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

If we repurchase vested equity instruments, the payment made to the employees and other qualifying participants shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees and other qualifying participants, as measured at the date of modification.

Income Taxes

We are subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact current income tax and deferred income tax in the period in which such determination is made.

Recoverability of non-financial assets

We test annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property, plant and equipment, construction in progress, other intangible assets, investment properties, land use rights, as well as investments in associates and joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required to identify any impairment indicators existing for any of the Group's goodwill, other non-financial assets to determine appropriate impairment approaches, i.e., fair value less costs of disposal or value in use, for impairment review purposes, and to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect our financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statement.

Fair value measurement of FVPL, FVOCI and other financial liabilities

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

RESULTS OF OPERATIONS

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

Revenues. Revenues increased by RMB74,934 million, or 32%, from RMB237,760 million in 2017 to RMB312,694 million (US$45,479 million) in 2018.

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

	Year ended 31 December				
	2017		2018		
	Amount *(RMB in millions)*	% of total revenues	*(RMB in millions)*	Amount *(US$ in millions)*	% of total revenues
VAS	153,983	65%	176,646	25,692	56%
Online advertising	40,439	17%	58,079	8,447	19%
Others	43,338	18%	77,969	11,340	25%
Total revenues	**237,760**	**100%**	**312,694**	**45,479**	**100%**

Revenues from VAS increased by RMB22,663 million, or 15%, from RMB153,983 million in 2017 to RMB176,646 million (US$25,692 million) in 2018. Online games revenues grew by 6% to RMB103,992 million (US$15,125 million) in 2018. The increase primarily reflected growth in revenues from our existing smart phone games such as *Honour of Kings* and *QQ Speed Mobile*, and new titles such as *MU Awakening* and *QQ Dancers Mobile*. Revenues from our PC client games decreased mainly due to users' time shift to smart phone games although some individual PC games performed robustly. Social networks revenues increased by 30% to RMB72,654 million (US$10,567 million). The increase was mainly due to higher contributions from our digital content services such as live broadcast services and video streaming subscriptions, as well as from in-game virtual item sales.

Revenues from online advertising increased by RMB17,640 million, or 44%, from RMB40,439 million in 2017 to RMB58,079 million (US$8,447 million) in 2018. Social and others advertising revenues increased by 55% to RMB39,773 million (US$5,785 million). The increase mainly reflected higher advertising revenues derived from *Weixin Moments*, *Weixin Mini Programs* and our mobile advertising network. Media advertising revenues grew by 23% to RMB18,306 million (US$2,662 million). The increase was primarily driven by greater advertising revenues from *Tencent Video*.

Revenues from others increased by RMB34,631 million, or 80%, from RMB43,338 million in 2017 to RMB77,969 million (US$11,340 million) in 2018. The increase was mainly due to revenue growth from our FinTech and cloud services.

Cost of revenues. Cost of revenues increased by RMB49,739 million, or 41%, from RMB120,835 million in 2017 to RMB170,574 million (US$24,809 million) in 2018. The increase primarily reflected greater content costs, costs of FinTech services, and channel costs. As a percentage of revenues, cost of revenues increased to 55% for the year ended 31December 2018 from 51% for the year ended 31 December 2017.

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

	Year ended 31 December				
	2017		**2018**		
	Amount *(RMB in millions)*	**% of segment revenues**	*(RMB in millions)*	**Amount** *(US$ in millions)*	**% of segment revenues**
VAS	61,389	40%	73,961	10,757	42%
Online advertising	25,586	63%	37,273	5,421	64%
Others	33,860	78%	59,340	8,631	76%
Total cost of revenues	**120,835**		**170,574**	**24,809**	

Cost of revenues for VAS increased by RMB12,572 million, or 20%, from RMB61,389 million in 2017 to RMB73,961 million in 2018 (US$10,757 million) . The increase was mainly due to greater content costs for services and products including live broadcast, video streaming subscriptions and online games, as well as higher channel costs for our smart phone games.

Cost of revenues for online advertising increased by RMB11,687 million, or 46%, from RMB25,586 million in 2017 to RMB37,273 million in 2018 (US$5,421 million). The increase was primarily driven by greater content costs, traffic acquisition costs and advertising commissions.

Cost of revenues for others increased by RMB25,480 million, or 75%, from RMB33,860 million in 2017 to RMB59,340 million (US$8,631 million) in 2018, mainly reflecting the increased scale of our FinTech and cloud services.

Gross profit. Gross profit increased by RMB25,195 million, or 22%, from RMB116,925 million in 2017 to RMB142,120 million (US$20,670 million) in 2018. Our gross margin was 45% in 2018 as compared to 49% in 2017.

Interest income. Interest income increased by RMB629 million, or 16%, from RMB3,940 million in 2017 to RMB4,569 million (US$665 million) in 2018.

Other gains, net. We recorded net other gains totalling RMB16,714 million (US$2,431 million) in 2018. There were increases in valuations for certain investee companies, including a fair value gain from *Meituan Dianping* upon its IPO, partly offset by impairment provisions for certain other investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by RMB6,581 million, or 37%, from RMB17,652 million in 2017 to RMB24,233 million (US$3,525 million) in 2018. The increase was mainly driven by greater marketing spending on services and products such as digital content services, FinTech services and smart phone games. As a percentage of revenues, selling and marketing expenses increased to 8% for the year ended 31 December 2018 from 7% for the year ended 31 December 2017.

General and administrative expenses. General and administrative expenses increased by RMB8,471 million, or 26%, from RMB33,051 million in 2017 to RMB41,522 million (US$6,039 million) in 2018. The increase mainly reflected greater R&D expenses and staff costs as a result of our expanded business volume. As a percentage of revenues, general and administrative expenses decreased to 13% for the year ended 31 December 2018 from 14% for the year ended 31 December 2017.

Operating profit. Operating profit increased by RMB7,346 million, or 8%, from RMB90,302 million in 2017 to RMB97,648 million (US$14,202 million) in 2018.

Finance costs, net. Net finance costs increased by RMB1,761 million, or 61%, from RMB2,908 million in 2017 to RMB4,669 million (US$679 million) in 2018. The increase primarily reflected greater interest expenses driven by higher amount of indebtedness.

Profit before income tax. Profit before income tax increased by RMB6,251 million, or 7%, from RMB88,215 million in 2017 to RMB94,466 million (US$13,739 million) in 2018.

Income tax expense. Income tax expense decreased by RMB1,262 million, or 8%, from RMB15,744 million in 2017 to RMB14,482 million (US$2,106 million) in 2018. The decrease was mainly due to the entitlements of preferential tax treatments and benefits.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB7,513 million, or 10%, from RMB72,471 million in 2017 to RMB79,984 million (US$11,633 million) in 2018. Our profit margin decreased from 30% in 2017 to 26% in 2018.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB7,209 million, or 10%, from RMB71,510 million for the year ended 31 December 2017 to RMB78,719 million (US$11,449 million) for the year ended 31 December 2018.

Year Ended 31 December 2017 Compared to Year Ended 31 December 2016

Revenues. Revenues increased by RMB85,822 million, or 56%, from RMB151,938 million in 2016 to RMB237,760 million in 2017.

The following table sets forth our revenues by line of business for the years ended 31 December 2016 and 2017:

	Year ended 31 December			
	2016		**2017**	
	Amount *(RMB in millions)*	**% of total revenues**	**Amount** *(RMB in millions)*	**% of total revenues**
VAS	107,810	71%	153,983	65%
Online advertising	26,970	18%	40,439	17%
Others	17,158	11%	43,338	18%
Total revenues	**151,938**	**100%**	**237,760**	**100%**

Revenues from VAS increased by RMB46,173 million, or 43%, from RMB107,810 million in 2016 to RMB153,983 million in 2017. Online games revenues grew by 38% to RMB97,883 million in 2017. The increase was primarily driven by revenue growth from our smart phone games, including existing titles such as *Honour of Kings*, and new titles such as the China versions of *Contra Return*, *Dragon Nest*

Mobile and *Legacy TLBB Mobile*. Revenues from our PC client games, such as DnF and LoL, also attributed to the increase. Revenues from our social networks increased by 52% to RMB56,100 million in 2017. The increase was mainly driven by digital content services such as live broadcast, video streaming subscription and music streaming subscription, as well as from in-game virtual item sales.

Revenues from online advertising increased by RMB13,469 million, or 50%, from RMB26,970 million in 2016 to RMB40,439 million in 2017. Social and other advertising revenues increased by 65% to RMB25,610 million. The increase was primarily driven by growth in advertising revenues derived from *Weixin*, our other mobile apps, and our advertising network. Media advertising revenues grew by 30% to RMB14,829 million. The increase mainly reflected higher traffic and revenues from *Tencent Video*, our video streaming services.

Revenues from others increased by RMB26,180 million, or 153%, from RMB17,158 million in 2016 to RMB43,338 million in 2017. The increase mainly reflected revenue growth from our FinTech and cloud services.

Cost of revenues. Cost of revenues increased by RMB53,396 million, or 79%, from RMB67,439 million in 2016 to RMB120,835 million in 2017. The increase primarily reflected greater content costs, costs of FinTech services, and channel costs. As a percentage of revenues, cost of revenues increased to 51% for the year ended 31 December 2017 from 44% for the year ended 31 December 2016, mainly due to business mix changes and greater channel costs for our smart phone games.

The following table sets forth our cost of revenues by line of business for the years ended 31 December 2016 and 2017:

	Year ended 31 December			
	2016		**2017**	
	Amount	**% of segment revenues**	**Amount**	**% of segment revenues**
	(RMB in millions)		*(RMB in millions)*	
VAS	37,622	35%	61,389	40%
Online advertising	15,396	57%	25,586	63%
Others	14,421	84%	33,860	78%
Total cost of revenues	**67,439**		**120,835**	

Cost of revenues for VAS increased by RMB23,767 million, or 63%, from RMB37,622 million in 2016 to RMB61,389 million in 2017. The increase mainly reflected greater content costs (including content costs for our video streaming subscription and live broadcast services), and channel costs for our smart phone games, in turn due to extended cooperation with third party app stores.

Cost of revenues for online advertising increased by RMB10,190 million, or 66%, from RMB15,396 million in 2016 to RMB25,586 million in 2017. The increase primarily reflected greater investments in, and amortisation of, video content. Traffic acquisition costs as well as bandwidth and server custody fees also increased.

Cost of revenues for others increased by RMB19,439 million, or 135%, from RMB14,421 million in 2016 to RMB33,860 million in 2017. The increase was mainly driven by the increased scale of our FinTech and cloud services.

Gross profit. Gross profit increased by RMB32,426 million, or 38%, from RMB84,499 million in 2016 to RMB116,925 million in 2017. Our gross margin was 49% in 2017 as compared to 56% in 2016.

Interest income. Interest income increased by RMB1,321 million, or 50%, from RMB2,619 million in 2016 to RMB3,940 million in 2017.

Other gains, net. We recorded net other gains totalling RMB20,140 million in 2017, which primarily consisted of net deemed disposal gains arising from the capital activities of certain investee companies (such as the initial public offerings of Yixin, Netmarble, Sea, ZhongAn Insurance and Sogou), fair value gains as a result of increases in valuations of certain investments (in verticals such as bike sharing, healthcare and FinTech), as well as subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses increased by RMB5,516 million, or 45%, from RMB12,136 million in 2016 to RMB17,652 million in 2017. The increase mainly reflected greater marketing spending on products and platforms such as online games, online media and FinTech services, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses decreased to 7% in 2017 from 8% in 2016.

General and administrative expenses. General and administrative expenses increased by RMB10,592 million, or 47%, from RMB22,459 million in 2016 to RMB33,051 million in 2017. The increase primarily reflected greater R&D expenses and staff costs due to our business expansion. As a percentage of revenues, general and administrative expenses decreased to 14% in 2017 from 15% in 2016.

Operating profit. Operating profit increased by RMB34,185 million, or 61%, from RMB56,117 million in 2016 to RMB90,302 million in 2017.

Finance costs, net. We recorded finance costs, net of RMB2,908 million in 2017, compared to RMB1,955 million in 2016. The increase mainly reflected greater interest expenses due to higher amount of indebtedness.

Profit before income tax. Profit before income tax increased by RMB36,575 million, or 71%, from RMB51,640 million in 2016 to RMB88,215 million in 2017.

Income tax expense. Income tax expense increased by RMB5,551 million, or 54%, from RMB10,193 million in 2016 to RMB15,744 million in 2017. The increase primarily reflected higher profit before income tax and greater withholding tax.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB31,024 million, or 75%, from RMB41,447 million in 2016 to RMB72,471 million in 2017. Our profit margin increased from 27% in 2016 to 30% in 2017.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB30,415 million, or 74%, from RMB41,095 million in 2016 to RMB71,510 million in 2017.

QUARTERLY RESULTS OF OPERATIONS

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

	Three months ended							
	31 March 2017	30 June 2017	30 September 2017	31 December 2017	31 March 2018	30 June 2018	30 September 2018	31 December 2018
	(Unaudited) *(RMB in millions)*							
Revenues:								
VAS	35,108	36,804	42,124	39,947	46,877	42,069	44,049	43,651
Online advertising	6,888	10,148	11,042	12,361	10,689	14,110	16,247	17,033
Others	7,556	9,654	12,044	14,084	15,962	17,496	20,299	24,212
Total revenues	**49,552**	**56,606**	**65,210**	**66,392**	**73,528**	**73,675**	**80,595**	**84,896**
Cost of revenues	(24,109)	(28,300)	(33,529)	(34,897)	(36,486)	(39,229)	(45,115)	(49,744)
Gross profit	**25,443**	**28,306**	**31,681**	**31,495**	**37,042**	**34,446**	**35,480**	**35,152**
Interest income	808	959	1,017	1,156	1,065	1,072	1,082	1,350
Other gains/(losses), net	3,191	5,125	3,918	7,906	7,585	2,506	8,762	(2,139)
Selling and marketing expenses	(3,158)	(3,660)	(4,812)	(6,022)	(5,570)	(6,360)	(6,573)	(5,730)
General and administrative expenses	(7,012)	(8,170)	(9,058)	(8,811)	(9,430)	(9,857)	(10,890)	(11,345)
Operating profit	**19,272**	**22,560**	**22,746**	**25,724**	**30,692**	**21,807**	**27,861**	**17,288**
Finance costs, net	(691)	(834)	(524)	(859)	(654)	(1,151)	(1,492)	(1,372)
Share of (loss)/profit of associates and joint ventures	(375)	498	818	(120)	(319)	1,526	264	16
Profit before income tax	**18,206**	**22,224**	**23,040**	**24,745**	**29,719**	**22,182**	**26,633**	**15,932**
Income tax expense.	(3,658)	(3,970)	(4,993)	(3,123)	(5,746)	(3,602)	(3,228)	(1,906)
Profit for the period	**14,548**	**18,254**	**18,047**	**21,622**	**23,973**	**18,580**	**23,405**	**14,026**

We experienced growth in our quarterly revenues for the eight quarters in the period from 31 March 2017 to 31 December 2018. The growth in our quarterly revenues was primarily attributable to increases in revenues from our smart phone games, digital content services, online advertising, FinTech and cloud services. Our online advertising business was subject to seasonal fluctuation as advertisers usually reduce their advertising spending around the Chinese New Year holidays in the first quarter.

LIQUIDITY AND CAPITAL RESOURCES

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

- our working capital requirements, such as content costs, staff costs, bandwidth and server custody fees, sales and marketing expenses, as well as research and development expenses; and

- costs associated with the expansion of our business.

We had cash and cash equivalents of RMB71,902 million, RMB105,697 million and RMB97,814 million (US$14,226 million) as at 31 December 2016, 2017 and 2018, respectively. Our term deposits and others included in current and non-current assets were RMB55,735 million, RMB42,540 million and RMB69,305 million (US$10,080 million) as at 31 December 2016, 2017 and 2018, respectively.

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

Our accounts receivable were RMB10,152 million, RMB16,549 million and RMB28,427 million (US$4,135 million) as at 31 December 2016, 2017 and 2018, respectively which mainly represented amounts due from online advertising customers and agencies, third party platform providers, and telecommunication operators. Some online advertising customers and agencies are granted with a credit period of 90 days after full execution of the contracted advertisement orders. Third party platform providers and telecommunication operators usually settle the amounts due by them within 60 days and a period of 30 to 120 days, respectively.

Our accounts payable were RMB27,413 million, RMB50,085 million and RMB73,735 million (US$10,724 million) as at 31 December 2016, 2017 and 2018, respectively. We normally settle the amount due to us according to the terms of our contracts.

Cash Flows

The following table sets forth our cash flows information for the years ended 31 December 2016, 2017 and 2018:

	Year ended 31 December			
	2016	2017	2018	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Net cash flows generated from operating activities	65,518	106,140	106,443	15,481
Net cash flows used in investing activities[1]	(70,923)	(96,392)	(151,913)	(22,095)
Net cash flows generated from financing activities[2]	31,443	26,598	35,380	5,146
Net increase/(decrease) in cash and cash equivalents	26,038	36,346	(10,090)	(1,468)
Cash and cash equivalents at beginning of year	43,438	71,902	105,697	15,373
Exchange gains/(losses) on cash and cash equivalents	2,426	(2,551)	2,207	321
Cash and cash equivalents at end of year	71,902	105,697	97,814	14,226

Note:

(1) Includes, among others, payment for capital expenditures as well as game and other content licences. Payment for capital expenditure represents the amount of paid for purchase of property, plant and equipment, construction in progress and investment properties, payments for land use rights and intangible assets (excluding media contents, games licences and other contents), which amounted to RMB10,566 million, RMB12,768 million and RMB23,092 million (US$3,359 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

(2) Includes, among others, dividends paid to our shareholders and non-controlling interest owners, which amounted to RMB4,606 million, RMB5,998 million and RMB7,396 million (US$1,076 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

Cash Flows from Operating Activities

In 2018, we had a net cash inflow from operating activities in the amount of RMB106,443 million (US$15,481 million). This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB116,068 million and changes in working capital in the amount of RMB4,896 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB14,521 million. The changes in working capital primarily consisted of an increase in accounts payable of RMB22,955 million, partially offset by (i) an increase in accounts receivable of RMB10,302 million, (ii) an increase in prepayments, deposits and other receivables of RMB4,050 million, (iii) a decrease in other payables and accruals of RMB3,154 million, (iv) a decrease in deferred revenue of RMB505 million, (v) an increase in inventories of RMB29 million, and (vi) a decrease in other tax liabilities of RMB19 million.

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

In 2016, we had a net cash flow from operating activities in the amount of RMB65,518 million. This was primarily a result of cash flows generated from operation before changes in working capital in the amount of RMB65,067 million and changes in working capital in the amount of RMB10,967 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB10,516 million. The changes in working capital primarily consisted of (i) an increase in deferred revenue of RMB8,428 million, (ii) an increase in accounts payable of RMB7,060 million, (iii) an increase in other payables and accruals of RMB2,506 million, and (iv) an increase in other tax liabilities of RMB49 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB4,108 million, (ii) an increase in accounts receivable of RMB2,930 million, and (iii) an increase in inventories of RMB38 million.

Cash Flows used in Investing Activities

Net cash used in investing activities for the year ended 31 December 2018 was RMB151,913 million (US$22,095 million), primarily reflecting the payments for acquisition of financial assets at fair value through profit or loss in the amount of RMB54,141 million, payments for acquisition of investments in associates in the amount of RMB37,776 million, and purchase or prepayment of intangible assets in the amount of RMB31,877 million, net placement flow of term deposits with initial term of over three months in the amount of RMB20,828 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB19,743 million, and payments for acquisition of financial assets at fair value through other comprehensive income in the amount of RMB17,669 million, partially offset by proceeds from disposals of financial assets at fair value through other comprehensive income of RMB22,224 million, proceeds from disposals of financial assets at fair value through profit or loss of RMB11,254 million and interest received of RMB4,435 million.

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

Net cash used in investing activities for the year ended 31 December 2016 was RMB70,923 million, primarily reflecting the payments of available-for-sale financial assets and related derivative financial instruments in the amount of RMB33,556 million, net placement flow of term deposits with initial term of over three months in the amount of RMB14,730 million, payments for acquisition of investments in associates in the amount of RMB8,934 million, purchase or prepayment of intangible assets in the amount of RMB8,849 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB8,399 million, and payments for acquisition of investments in redeemable instruments of associates in the amount of RMB3,324 million, partially offset by loans repayments from investees and others of RMB4,046 million and interest received of RMB1,718 million.

Net Cash Flows generated from Financing Activities

Net cash generated from financing activities for the year ended 31 December 2018 was RMB35,380 million (US$5,146 million), primarily reflecting net proceeds from issuance of notes payable of RMB32,547 million, proceeds from short-term borrowings of RMB26,463 million, proceeds from issuance of additional equity of non-wholly owned subsidiaries of RMB7,238 million and proceeds from long-term borrowings of RMB7,237 million, partially offset by repayments of short-term borrowings of RMB23,545 million, dividend paid to our shareholders and the non-controlling interests of RMB7,396 million and repayments of notes payable of RMB4,666 million.

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

Net cash generated from financing activities for the year ended 31 December 2016 was RMB31,443 million, mainly reflecting proceeds from long-term borrowings of RMB55,394 million and proceeds from short-term borrowings of RMB2,387 million, partially offset by repayments of long-term borrowings of RMB13,957 million, dividend paid to our shareholders and the non-controlling interests of RMB4,606 million, and repayments of notes payable of RMB4,132 million.

Capital Expenditure

Our capital expenditures consist of additions (excluding business combinations) to property, plant and equipment which primarily include computers and servers, construction in progress, investment properties, land use rights and intangible assets (excluding media contents, game licences and other contents), were RMB12,100 million, RMB13,585 million and RMB23,941 million (US$3,482 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

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

INDEBTEDNESS

Our total borrowings amounted to RMB69,827 million, RMB97,790 million and RMB114,271 million (US$16,620 million) as at 31 December 2016, 2017 and 2018, respectively.

Our total notes payable amounted to RMB39,670 million, RMB34,115 million and RMB65,018 million (US$9,456 million) as at 31 December 2016, 2017 and 2018, respectively. On 29 April 2014, we completed the issue of the 2019 Notes. The 2019 Notes bear an interest at 3.375% per annum from 29 April 2014, payable semi-annually in arrears on 2 November and 2 May of each year. The 2019 Notes will mature on 2 May 2019. See "*Description of Other Material Indebtedness — 2019 Notes*". On 16 May 2014, we completed the issue of the January 2020 Notes. The January 2020 Notes bear an interest at 3.200% per annum from 16 May 2014, payable quarterly in arrears on 10 July, 10 October, 10 January and 10 April of each year. The January 2020 Notes will mature on 10 January 2020. See "*Description of Other Material Indebtedness — January 2020 Notes*". On 21 October 2014, we completed the issue of the April 2020 Notes. The April 2020 Notes bear an interest of 2.900% per annum from 21 October 2014, payable annually in arrears on 21 October of each year. The April 2020 Notes will mature on 21 April 2020. See "*Description of Other Material Indebtedness — April 2020 Notes*". On 11 February 2015, we completed the issue of the February 2020 Notes. The February 2020 Notes bear an interest of 2.875% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The February 2020 Notes will mature on 11 February 2020. See "*Description of Other Material Indebtedness — February 2020 Notes and 2025 Notes*". On 11 February 2015, we completed the issue of the 2025 Notes. The 2025 Notes bear an interest of 3.800% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes will mature on 11 February 2025. See "*Description of Other Material Indebtedness — February 2020 Notes and 2025 Notes*". On 15 July 2015, we completed the issue of the 2035 Notes. The 2035 Notes bear an interest of 4.700% per annum from 15 July 2015, payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes will mature on 15 July 2035. See "*Description of Other Material Indebtedness — 2035 Notes*". On 19 January 2018, we completed the issue of the 2023 Notes. The 2023 Notes bear an interest of 2.985% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2023 Notes will mature on 19 January 2023. See "*Description of Other Material Indebtedness — 2023 Notes*". On 19 January 2018, we completed the issue of the 2023 Floating Rate Notes. The 2023 Floating Rate Notes bear an interest of 3-month USD LIBOR + 0.605% per annum from 19 January 2018, payable quarterly in arrears on 19 January, 19 April, 19 July and 19 October of each year. The 2023 Floating Rate Notes will mature on 19 January 2023. See "*Description of Other*

Material Indebtedness — 2023 Floating Rate Notes". On 19 January 2018, we completed the issue of the 2028 Notes. The 2028 Notes bear an interest of 3.595% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2028 Notes will mature on 19 January 2028. See "*Description of Other Material Indebtedness — 2028 Notes*". On 19 January 2018, we completed the issue of the 2038 Notes. The 2038 Notes bear an interest of 3.925% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2038 Notes will mature on 19 January 2038. See "*Description of Other Material Indebtedness — 2038 Notes*".

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

	As at 31 December			
	2016	**2017**	**2018**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Current:				
USD bank borrowings, unsecured [1]	12,139	1,307	16,403	2,386
HKD bank borrowings, unsecured [1]	—	14,293	3,368	490
RMB bank borrowings, unsecured [1]	—	—	628	91
Current portion of long-term USD bank borrowings, unsecured [2]	139	66	5,628	819
Current portion of long-term RMB bank borrowings,				
- unsecured [2]	—	30	332	48
- secured [2]	—	—	475	69
	12,278	15,696	26,834	3,903
Non-Current:				
Non-current portion of long-term USD bank borrowings, unsecured [2]	57,549	76,326	70,938	10,318
Non-current portion of long-term RMB bank borrowings,				
- unsecured [2]	—	4,459	11,189	1,627
- secured [2]	—	475	—	—
Non-current portion of long-term HKD bank borrowings, unsecured [2]	—	834	5,310	772
	57,549	82,094	87,437	12,717
Total borrowings	**69,827**	**97,790**	**114,271**	**16,620**

	As at 31 December			
	2016	2017	2018	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Current:				
Notes payable [(3)]	3,466	4,752	13,720	1,995
Non-current:				
Notes payable [(3)]	36,204	29,363	51,298	7,461
Total notes payable	**39,670**	**34,115**	**65,018**	**9,456**
Total	**109,497**	**131,905**	**179,289**	**26,076**

Note:

(1) The aggregate principal amounts of short-term USD bank borrowings, short-term HKD bank borrowings and short-term RMB bank borrowings as at 31 December 2018, were US$2,390 million, HK$3,850 million and RMB628 million, respectively. These short-term bank borrowings were carried at LIBOR/HIBOR plus 0.50% to 0.55% or a fixed interest rate of 5.22% to 5.44% per annum.

(2) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings as at 31 December 2018, were US$11,156 million, RMB11,996 million and HK$6,070 million, respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.70% to 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% to 9.00% for RMB bank borrowings per annum.

(3) On 12 December 2011, we issued the 2016 Notes in an aggregate principal amount of US$600 million. The 2016 Notes matured and were fully paid on 12 December 2016. On 5 September 2012, we issued the 2018 Notes in an aggregate principal amount of US$600 million. The 2018 Notes matured and were fully paid on 5 March 2018. On 29 April 2014, we issued the 2017 Notes in an aggregate principal amount of US$500 million that matured and were fully paid on 2 May 2017. On 29 April 2014, we issued the 2019 Notes in an aggregate principal amount of US$2,000 million that will mature on 2 May 2019. The 2019 Notes bear an interest at 3.375% per annum from 29 April 2014, payable semi-annually in arrears on 2 November and 2 May of each year. The 2019 Notes were issued at 99.895% of the aggregate principal amount. On 16 May 2014, we issued the January 2020 Notes in an aggregate principal amount of HK$2,000 million that will mature on 10 January 2020. The January 2020 Notes bear an interest at 3.200% per annum from 16 May 2014, payable quarterly in arrears on 10 July, 10 October, 10 January and 10 April of each year. The January 2020 Notes were issued at 100.0% of the aggregate principal amount. On 21 October 2014, we completed the issue of the April 2020 Notes in an aggregate principal amount of HK$1,200 million that will mature on 21 April 2020. The April 2020 Notes bear an interest of 2.900% per annum from 21 October 2014, payable annually in arrears on 21 October of each year. The April 2020 Notes were issued at 100.0% of the aggregate principal amount. On 11 February 2015, we completed the issue of the February 2020 Notes in an aggregate principal amount of US$1,100 million that will mature on 11 February 2020. The February 2020 Notes bear an interest of 2.875% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The February 2020 Notes were issued at 99.797% of the aggregate principal amount. On 11 February 2015, we completed the issue of the 2025 Notes in an aggregate principal amount of US$900 million that will mature on 11 February 2025.

The 2025 Notes bear an interest of 3.800% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes were issued at 99.605% of the aggregate principal amount. On 15 July 2015, we completed the issue of the 2035 Notes in an aggregate principal amount of US$100 million that will mature on 15 July 2035. The 2035 Notes bear an interest of 4.700% per annum from 15 July 2015, payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes were issued at 99.359% of the aggregate principal amount. On 24 September 2015, we issued the September 2018 Notes in an aggregate principal amount of HK$1,000 million. The September 2018 Notes matured and were fully paid on 24 September 2018. On 19 January 2018, we completed the issue of the 2023 Notes in an aggregate amount of US$1,000 million that will mature on 19 January 2023. The 2023 Notes bear an interest of 2.985% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2023 Notes were issued at 99.986% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2023 Floating Rate Notes in an aggregate amount of USD500 million that will mature on 19 January 2023. The 2023 Floating Rate Notes bear an interest of 3-month USD LIBOR + 0.605% per annum from 19 January 2018, payable quarterly in arrears on 19 January, 19 April, 19 July and 19 October of each year. The 2023 Floating Rate Notes were issued at 100.0% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2028 Notes in an aggregate amount of USD2,800 million that will mature on 19 January 2028. The 2028 Notes bear an interest of 3.595% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2028 Notes were issued at 99.975% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2038 Notes in an aggregate amount of US$D1,000 million that will mature on 19 January 2038. The 2038 Notes bear an interest of 3.925% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2038 Notes were issued at 99.959% of the aggregate principal amount.

CONTRACTUAL OBLIGATIONS

Capital Commitments

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

	As at 31 December			
	2016	**2017**	**2018**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Contracted:				
Construction/purchase of buildings and purchase of land use rights	1,911	273	2,219	323
Purchase of other property, plant and equipment	44	153	357	52
Capital investment in investees	2,866	3,027	8,763	1,274
Total	**4,821**	**3,453**	**11,339**	**1,649**

Operating Lease Commitments

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

	As at 31 December			
	2016	2017	2018	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Contracted:				
Not later than one year	302	1,027	2,632	383
Later than one year and not later than five years	632	1,056	7,398	1,076
Later than five years	1,156	970	2,264	329
Total	**2,090**	**3,053**	**12,294**	**1,788**

Other Commitments

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

	As at 31 December			
	2016	2017	2018	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Contracted:				
Not later than one year	3,404	5,279	7,260	1,056
Later than one year and not later than five years	4,081	9,822	8,332	1,212
Later than five years	1,540	2,236	2,279	331
Total	**9,025**	**17,337**	**17,871**	**2,599**

Off-balance Sheet Commitments and Arrangements

Except for the commitments set forth above, we had no material off-balance sheet transactions or arrangements as at 31 December 2018.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

Foreign exchange risk

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HKD, USD and EUR. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of our subsidiaries. Our functional currency as well as for a majority of our overseas subsidiaries is USD whereas the functional currency of our subsidiaries which operate in the PRC is RMB.

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

During the year ended 31 December 2018, we entered into foreign exchange forward contracts in relation to projected purchases that qualify as "high probable" forecast transactions and hence satisfy the requirements for hedge accounting. Under our policy the critical terms of the forwards must align with the hedged items.

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

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

Price risk

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

Interest rate risk

Our income and operating cash flows are substantially independent from changes in market interest rates and we have no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents.

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

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

During the year ended 31 December 2018, we entered into certain interest rate swap contracts to hedge our exposure arising from our borrowings carried at floating rates. Under these interest rate swap contracts, we agreed with the counterparties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates and were qualified as hedge accounting.

Credit risk

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

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

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

ii. Credit risk of accounts receivable

To manage this risk, we have policies in place to ensure that revenues on credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. In addition, we have a large number of customers and there is no concentration of credit risk.

Our online advertising that are sales to/through advertising agencies or directly to the advertisers are at term of full advances, partial advances or sales on credit according to our credit policies. The credit period granted to the customers is usually not more than 90 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors.

Our revenues from VAS are generally paid by end users mainly via online payment channels, whereas the revenues from VAS that delivered to the end users through third party platforms are collected by these third party platform providers and remitted to us under a credit period within 60 days. In addition, we also sell prepaid credits through various channels such as sales agents, telecommunication operators, third party platform providers and Internet cafes, etc. Apart from certain credit periods granted to the telecommunication operators and third party platform providers, full advances are required from other channels.

We apply the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. In view of the sound financial position and collection history of receivables due from these counterparties and insignificant risk of default, to measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due. A default on accounts receivable is when the counterparty fails to make contractual payments within 90 days of when they fall due. Accounts receivable are written off, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with us, and its failure to make contractual payments for a period of greater than 3 years past due. Impairment losses on accounts receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same item. Management believes that the expected credit loss is immaterial and the credit risk inherent in our outstanding accounts receivable balances due from these counterparties is not significant.

iii. Credit risk of other receivables

Other receivables at the end of each of the years are mainly comprised of loans to investees and investees' shareholders, rental deposits and other receivables. We consider the probability of default upon initial recognition of an asset and whether there has been significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk we compare risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially, the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;

- actual or expected significant changes in the operating results of the debtor;

- significant changes in the expected performance and behavior of the debtor, including changes in the payment status of the debtor.

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

Liquidity risk

We aim to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, we maintain flexibility in funding by maintaining adequate cash and cash equivalents and marketable securities.