

	Year ended 31 December		
	2019	2018	Year- on-year change
	(RMB in millions, unless specified)		
Revenues	377,289	312,694	21%
Gross profit	167,533	142,120	18%
Operating profit	118,694	97,648	22%
Profit for the year	95,888	79,984	20%
Profit attributable to equity holders of the Company	93,310	78,719	19%
Non-IFRS profit attributable to equity holders of the Company	94,351	77,469	22%
EPS (RMB per share)			
– basic	9.856	8.336	18%
– diluted	9.643	8.228	17%
Non-IFRS EPS (RMB per share)			
– basic	9.966	8.203	21%
– diluted	9.729	8.097	20%

DIVIDEND

The Board has recommended the payment of a final dividend of HKD1.20 per share (2018: HKD1.00 per share) for the year ended 31 December 2019, subject to the approval of the shareholders at the 2020 AGM. Such proposed dividend will be payable on 29 May 2020 to the shareholders whose names appear on the register of members of the Company on 20 May 2020.

OPERATING INFORMATION

	As at 31 December 2019	As at 31 December 2018	Year- on-year change	As at 30 September 2019	Quarter- on-quarter change
Combined MAU of Weixin and WeChat	1,164.8	1,097.6	6.1%	1,151.0	1.2%
Smart device MAU of QQ	647.0	699.8	-7.5%	653.4	-1.0%
Fee-based VAS registered subscriptions	180.1	160.3	12.4%	170.6	5.6%

BUSINESS REVIEW AND OUTLOOK

Strategic Progress and Outlook

Our key strategic priorities include cultivating our leading position in the Consumer Internet, embracing opportunities brought by the Industrial Internet, and energizing our corporate culture. During 2019, we believe we made substantial progress on prominent aspects of our corporate strategy, and we see scope for further development, leading us to continue to evolve our plans as we try to tackle new challenges and seize new opportunities. Reviewing some of our important product areas and business lines:

Communication and Social

Our strategic focus in this business is strengthening connections between users via digital content, online services, and offline services, as well as enhancing connections with enterprises leveraging Mini Programs, Weixin Pay and WeChat Work.

In 2019, we provided Weixin users with convenient access to public services and healthcare content. We enriched content in Mini Programs and news feeds services in video format and enabled users to share short videos via Weishi within Moments. Weixin and WeChat engagement metrics stayed high as their active user base and user time spent increased. Daily messages sent were up 15% year-on-year for the fourth quarter of 2019. We rejuvenated QQ with enhanced chat features and friend recommendation, and we expanded entertainment use cases via Mini Games, increasing QQ's popularity among younger generations. Since the coronavirus outbreak, QQ School-plus-Home groups have served more than 120 million users, with optimised features such as live broadcast, online tutoring programs and online administrative tools for school routines to facilitate online and offline education. To strengthen our connections with enterprises, we facilitated discovery of merchants' Mini Programs and sales conversion by enhancing Weixin in-app search and live broadcast functions. The number of daily transactions generated within Mini Programs more than doubled year-on-year, and their transaction value exceeded RMB800 billion in 2019.

Looking forward, we seek to make our users' everyday life more convenient through our communication products, to develop the full potential of Mini Programs, and to introduce new social experiences enabled by technology innovations.

Online Games

In our online games business, our strategic focus was on enhancing our internal R&D capability and external partnerships, and expanding our overseas business.

During 2019, we extended our China leadership and made notable progress in our overseas business, largely due to the success of our games PUBG Mobile and Call of Duty Mobile, as well as the new mode Teamfight Tactics within LoL. Our international games revenues more than doubled year-on-year, constituting 23% of our online games revenue in the fourth quarter of 2019. As of the end of 2019, five out of the top ten most-popular smart phone games by DAU internationally were developed by us. In addition to establishing our original IP franchises, we developed external partnerships via a number of new investments in best-in-genre studios. Key studios such as Timi and Lightspeed & Quantum under Tencent, as well as Riot Games and Supercell, have enhanced their R&D capability, and each have several promising games in its pipeline. We believe our studios are industry leaders on PC and smart phone games, and in genres such as multi-player battle arena and tactical tournament, but still have room to enhance our capabilities in other genres such as role-playing games. Leveraging our flagship games franchises, we strengthened our eSports global leadership with LoL's World Championship and Honour of Kings' KPL, which were the most watched events for PC and smart phone games, respectively.

Looking forward, we will seek to extend our domestic game industry leadership, reinforce our international efforts, and provide high quality new games globally.

Digital Content

In digital content, we focus on investing in digital content and growing our subscription business, and extending our franchise in long form video to short form video.

In 2019, our fee-based VAS subscriptions increased 12% year-on-year to 180 million. We experienced slower subscriber and revenue growth for our video subscription service in 2019 than 2018, reflecting delays in broadcasting key content; however our Tencent Video subscriptions reached 106 million, and we remained the clear industry leader in terms of content, users, and financial metrics, reducing our 2019 operating loss to below RMB3 billion, substantially lower than the loss rates of industry peers. We are increasingly skilled at commissioning and creating in-house content, especially in areas such as drama series, anime series, and variety shows. We have extended our owned IP, such as Joy of Life (慶餘年), from online novels into successful TV drama series. We accelerated our music subscriber growth in the second half of 2019, benefitting from the pay-for-streaming model. Our literature subscriber growth was weak for much of 2019 due to competition from free reading services, but we are seeing signs of improvement, as our Weixin Reading app becomes more popular, and as readers differentiate the generally higher quality of paid content.

During 2019, we have aggressively stepped up our investment in the short form video space, given users are spending substantial time watching such videos. As a result of our efforts, our short video app Weishi increased its DAU 80% and daily uploads 70% sequentially in the fourth quarter of 2019. We enhanced our video content recognition technology to enhance user content creation and make smarter content recommendations. We added innovative features such as video red packets to boost social video uploads and leveraged in-house IPs to support content creation by key opinion leaders (KOLs) and multi-channel networks (MCNs). We are in the early stages of what we expect to be a multi-year investment in short form video, but the fact that we overcame a late start in long form video to become the industry's leader, together with our ability to leverage our social network and media properties, and our substantial progress in recent months, gives us confidence in our long term prospects in short form video.

Online Advertising

In advertising, we seek to enhance our user targeting capability to increase ROIs (return on investments) for advertisers.

During the first half of 2019, weak macro-economic conditions and competition for advertising spending negatively impacted our advertising business. However, the unification of our advertising technology and sales teams, enhanced user targeting, as well as simplified inventories and advertiser tools enabled us to re-establish business momentum from the second half of 2019 in our core “social and others” advertising category, which accounted for the large majority of our total advertising revenue in the fourth quarter of 2019. Specifically, we extended the maximum number of ad impressions per user day in Weixin Moments from two to three in early 2019, and successfully tested a fourth impression in late 2019. Leveraging our data and technology, we believe we have taken substantial market share in ad networks, where we have experienced robust revenue growth and improved operating margin. Our media advertising business was hurt by delays in broadcasting certain drama series and less advertising activities around NBA basketball games.

Looking forward, we believe our competitive position in advertising has notably improved, and despite industry challenges, we enter 2020 with the right team and technology to enhance advertiser ROIs and increase our advertising market share, while continuing to provide appealing consumer experiences.

FinTech

In FinTech, we strive to drive payment innovation, add payment use cases, and expand our wealth management portfolio.

During 2019, we strengthened our leadership in mobile payment services through deepening our penetration among offline merchants. In the fourth quarter of 2019, we exceeded 1 billion daily average transactions for our commercial payments, covered over 800 million monthly active users, and worked with over 50 million monthly active merchants. We launched Weixin

Pay Scores which enhanced users' purchase propensity and loyalty to merchants through features such as waiving creditworthy users their deposits on some rental use cases. Our wealth management platform, LiCaiTong, increased its aggregate customer assets over 50% year-on-year, while its number of customers more than doubled year-on-year as we expanded into the mass market. Our affiliate WeBank rapidly grew the loan balances of its micro-loan product, WeiLiDai, within Weixin, while maintaining a healthy non-performing loan ratio.

Looking forward, we will seek to extend our payment use cases, provide new FinTech products and services, and enhance the underlying capabilities and stability of our platform.

Cloud and Business Services

In Cloud and Business Services, we focus on developing customized industry solutions, enabling our enterprise partners to better connect with our users, and assisting a range of industries in digital upgrades.

Our cloud services revenues exceeded RMB17 billion in 2019, as we consistently outgrew the market. Our number of paying customers exceeded 1 million, benefitting from enhanced sales team and deeper partnerships with system integrators. Gross margins improved as we optimized supply chains and expanded business scale. We increased our market share and gained presence in verticals such as Internet services, tourism, municipal services and industrial sectors, leveraging our consumer reach to assist enterprises in their digital upgrades. The COVID-19 pandemic is delaying customers' implementation of cloud-related initiatives and will thus negatively impact our near-term cloud services revenues, but we believe enterprises will be increasingly keen to adopt cloud-based solutions over the longer term, in order to facilitate remote working and remote interactions with their customers.

2020's COVID-19 pandemic highlights the utility of remote working and remote health care services, and we are seeking to play our part in helping people cope with the new challenge. Tencent Meeting exceeded 10 million DAUs within two months since its launch in late December 2019, by far the most-used dedicated video conferencing app in China. We deepened the integration between Weixin and WeChat Work to facilitate customer management and sales conversion, and millions of enterprises used WeChat Work to resume work in the wake of the coronavirus outbreak. Over 300 million Weixin users have utilized Tencent Health as an important access to real-time pandemic data, online consultation and AI-powered self-diagnosis services. We provided our medical AI imaging capabilities to assist diagnosis of coronavirus disease. We also offered reliable and professional medical information through Tencent Medipedia, and distributed pandemic-related content via multiple high-traffic platforms, such as Weixin and Tencent News, attracting over 600 million page views. Tencent Health Code becomes the most used ePass for verifying health and travel history during the outbreak. 900 million users across more than 300 cities and counties have used our Health Code since it was available in this February, with a total of 8 billion visits. Looking forward, we will seek to both meet the immediate needs for our products brought about by the pandemic, and develop our capabilities to anticipate and serve enterprises' long term demands as the economy digitizes.

Environmental, Social and Governance (“ESG”) Initiatives

We made notable progress on our ESG performance in 2019 in areas such as 1) technology education, 2) rural poverty alleviation, 3) environmental conservation, 4) cultural inheritance and 5) board diversity.

We inaugurated an Xplorer Prize with an initial funding of RMB1 billion, which has recognized 50 outstanding scientists, in order to support fundamental science and cutting-edge technology research.

WeCounty Platform, our initiative to facilitate digitalisation and thus poverty alleviation in China’s rural areas, has connected 15,000 villages in 29 provinces, serving over 2.5 million villagers as at the end of 2019.

Energy consumption efficiency and the use of renewable energy in local power grids have become important components of our site selection criteria for data centers. In 2019, we piloted recycling of waste heat in our Tianjin data center, which will help reduce energy consumption by approximately 1,600 tons of coal each year. Our Guangming data center, located in Shenzhen, was rated as AAAAA (the highest level) in the evaluation of green data centers organized by the Open Data Center Committee and other authorities, showcasing our leadership in energy saving.

On cultural preservation, we cooperated with renowned museums worldwide to promote cultural inheritance. In 2019, we deepened cooperation with the Palace Museum in Beijing to support the digitalization of 100,000 cultural relics in the next three years. We also established a partnership with National Museums Union of France (Réunion des Musées Nationaux) to build digital museums to bring Chinese national treasures around the world to our users.

Our signature charity event, the annual “9.9 Giving Day”, engaged 48 million netizens and over 2,500 enterprises, and raised approximately RMB2.5 billion in 2019. Tencent Group donated RMB850 million to the Tencent Foundation in 2019, bringing our cumulative donations to RMB4.3 billion.

We diversified our board with the inclusion of Professor Ke Yang, who broadens our board’s perspectives and brings expertise in healthcare. She is the Director of the Laboratory of Genetics in Peking University Cancer Hospital, and an international member of the United States National Academy of Medicine.

As we entered 2020, we faced the challenges of the coronavirus pandemic, which has profoundly impacted the global economy. We responded by establishing a RMB1.5 billion emergency fund to offer relief support and by leveraging our cloud resources and technology to support pandemic-related program development and medical research. Our teams have worked relentlessly to upgrade our capabilities and products to update the public with authoritative news and information related to the pandemic, and to provide access to healthcare services, businesses and educational establishments with remote workplace and collaborative tools. We also cooperated with Dr. Zhong Nanshan to fund his coronavirus research and provided our medical AI imaging capabilities to assist developing a quick test for COVID-19. We believe these efforts embody our mission, “Value for Users, Tech for Good”.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The following table sets forth the comparative figures for the years ended 31 December 2019 and 2018:

	Year ended 31 December	
	2019	2018
	(RMB in millions)	
Revenues	377,289	312,694
Cost of revenues	<u>(209,756)</u>	<u>(170,574)</u>
Gross profit	167,533	142,120
Interest income	6,314	4,569
Other gains, net	19,689	16,714
Selling and marketing expenses	(21,396)	(24,233)
General and administrative expenses	<u>(53,446)</u>	<u>(41,522)</u>
Operating profit	118,694	97,648
Finance costs, net	(7,613)	(4,669)
Share of (loss)/profit of associates and joint ventures	<u>(1,681)</u>	<u>1,487</u>
Profit before income tax	109,400	94,466
Income tax expense	<u>(13,512)</u>	<u>(14,482)</u>
Profit for the year	<u>95,888</u>	<u>79,984</u>
Attributable to:		
Equity holders of the Company	93,310	78,719
Non-controlling interests	<u>2,578</u>	<u>1,265</u>
	<u>95,888</u>	<u>79,984</u>
Non-IFRS profit attributable to equity holders of the Company	<u>94,351</u>	<u>77,469</u>

Revenues. Revenues increased by 21% to RMB377.3 billion for the year ended 31 December 2019 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended 31 December 2019 and 2018:

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

- Revenues from our VAS business increased by 13% year-on-year to RMB200 billion. Online games revenues grew by 10% to RMB114.7 billion. The increase was primarily due to revenue contributions from domestic smart phone games including Honour of Kings and Peacekeeper Elite, as well as increased contributions from our overseas titles such as PUBG Mobile and Supercell titles, partly offset by the revenue decline from PC client games such as DnF. Social networks revenues increased by 17% to RMB85,281 million. The increase mainly reflected revenue growth from digital content services such as live broadcast services and video streaming subscriptions.
- Revenues from FinTech and Business Services increased by 39% year-on-year to RMB101.4 billion. The increase was primarily driven by greater revenues from commercial payment due to increased daily active consumers and number of transactions per user. Greater revenues from cloud services also contributed to the annual growth.
- Revenues from Online Advertising business increased by 18% year-on-year to RMB68,377 million. Social and others advertising revenues grew by 33% to RMB52,897 million. The increase mainly reflected higher advertising revenues derived from Weixin (primarily Weixin Moments and Mini Programs) as a result of its increased inventories and impressions, as well as contributions from our mobile advertising network due to increased traffic and video inventories. Media advertising revenues decreased by 15% to RMB15,480 million. The decrease was primarily due to lower advertising revenues from our media platforms including Tencent Video and Tencent News resulting from unpredictability in broadcast schedules and the challenging macro environment, as well as the absence of the FIFA World Cup in year 2019.

Cost of revenues. Cost of revenues increased by 23% year-on-year to RMB209.8 billion. The increase primarily reflected greater content costs, costs of FinTech services and channel costs. As a percentage of revenues, cost of revenues increased to 56% for the year ended 31 December 2019 from 55% for the year ended 31 December 2018. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2019 and 2018:

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

- Cost of revenues for VAS increased by 27% year-on-year to RMB94,086 million. The increase was mainly due to greater content costs for services and products such as live broadcast services, online games and video streaming subscriptions, as well as channel costs for smart phone games.
- Cost of revenues for FinTech and Business Services increased by 35% year-on-year to RMB73,831 million. The increase primarily reflected greater costs of payment-related and cloud services due to the enhanced scale of our payment and cloud activities.
- Cost of revenues for Online Advertising decreased by 6% year-on-year to RMB34,860 million. The decrease was mainly driven by lower content costs for our advertising-funded long form video service resulting from fewer content releases and improved cost efficiency, partly offset by other cost items.

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

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

General and administrative expenses. General and administrative expenses increased by 29% to RMB53,446 million for the year ended 31 December 2019 on a year-on-year basis. The increase was primarily driven by greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses increased to 14% for the year ended 31 December 2019 from 13% for the year ended 31 December 2018.

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

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

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

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

Fourth Quarter of 2019 Compared to Fourth Quarter of 2018

The following table sets forth the comparative figures for the fourth quarter of 2019 and the fourth quarter of 2018:

	Unaudited	
	Three months ended	
	31 December	31 December
	2019	2018
	(RMB in millions)	
Revenues	105,767	84,896
Cost of revenues	<u>(59,659)</u>	<u>(49,744)</u>
Gross profit	46,108	35,152
Interest income	1,580	1,350
Other gains/(losses), net	3,630	(2,139)
Selling and marketing expenses	(6,712)	(5,730)
General and administrative expenses	<u>(16,002)</u>	<u>(11,345)</u>
Operating profit	28,604	17,288
Finance costs, net	(2,767)	(1,372)
Share of (loss)/profit of associates and joint ventures	<u>(1,328)</u>	<u>16</u>
Profit before income tax	24,509	15,932
Income tax expense	<u>(2,137)</u>	<u>(1,906)</u>
Profit for the period	<u>22,372</u>	<u>14,026</u>
Attributable to:		
Equity holders of the Company	21,582	14,229
Non-controlling interests	<u>790</u>	<u>(203)</u>
	<u>22,372</u>	<u>14,026</u>
Non-IFRS profit attributable to equity holders of the Company	<u>25,484</u>	<u>19,730</u>

Revenues. Revenues increased by 25% to RMB105.8 billion for the fourth quarter of 2019 on a year-on-year basis. The following table sets forth our revenues by line of business for the fourth quarter of 2019 and the fourth quarter of 2018:

	Unaudited			
	Three months ended			
	31 December 2019		31 December 2018	
	% of total		% of total	
	Amount	revenues	Amount	revenues
			(Restated)	(Restated)
	(RMB in millions, unless specified)			
VAS	52,308	50%	43,651	51%
FinTech and Business Services	29,920	28%	21,597	26%
Online Advertising	20,225	19%	17,033	20%
Others	3,314	3%	2,615	3%
Total revenues	<u>105,767</u>	<u>100%</u>	<u>84,896</u>	<u>100%</u>

- Revenues from VAS increased by 20% to RMB52,308 million for the fourth quarter of 2019 on a year-on-year basis. Online games revenues grew by 25% to RMB30,286 million. The increase was primarily driven by revenue growth from smart phone games in both domestic and overseas markets, including titles such as Peacekeeper Elite and PUBG Mobile, as well as revenue contributions from Supercell titles, partly offset by lower revenues from PC client games such as DnF. Social networks revenues increased by 13% to RMB22,022 million. The increase mainly reflected greater contributions from digital content services such as live broadcast and music streaming services.
- Revenues from FinTech and Business Services increased by 39% to RMB29,920 million for the fourth quarter of 2019 on a year-on-year basis. The increase was primarily due to greater revenue contributions from commercial payment, as well as revenue growth from cloud services as a result of deeper penetration in key verticals.
- Revenues from Online Advertising increased by 19% to RMB20,225 million for the fourth quarter of 2019 on a year-on-year basis. Social and others advertising revenues increased by 37% to RMB16,274 million. The increase was mainly driven by advertising revenue growth from Weixin Moments and our mobile advertising network. Media advertising revenues decreased by 24% to RMB3,951 million. The decrease primarily reflected lower advertising revenues from our media platforms including Tencent Video and Tencent News due to uncertain broadcasting schedules and fewer telecasts of sports events.

Cost of revenues. Cost of revenues increased by 20% to RMB59,659 million for the fourth quarter of 2019 on a year-on-year basis. The increase was mainly due to greater costs of FinTech services, channel costs and content costs. As a percentage of revenues, cost of revenues decreased to 56% for the fourth quarter of 2019 from 59% for the fourth quarter of 2018. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2019 and the fourth quarter of 2018:

	Unaudited			
	Three months ended			
	31 December 2019		31 December 2018	
	Amount	% of segment revenues	Amount (Restated)	% of segment revenues (Restated)
(RMB in millions, unless specified)				
VAS	26,120	50%	20,330	47%
FinTech and Business Services	21,520	72%	16,310	76%
Online Advertising	9,241	46%	10,800	63%
Others	<u>2,778</u>	84%	<u>2,304</u>	88%
Total cost of revenues	<u><u>59,659</u></u>		<u><u>49,744</u></u>	

- Cost of revenues for VAS increased by 28% to RMB26,120 million for the fourth quarter of 2019 on a year-on-year basis. The increase mainly reflected greater channel costs for smart phone games due to increased revenues, including the channel costs attributable to Supercell, as well as higher content costs for services and products such as live broadcast services, online games and music streaming.
- Cost of revenues for FinTech and Business Services increased by 32% to RMB21,520 million for the fourth quarter of 2019 on a year-on-year basis. The increase was primarily driven by scale expansion of our payment-related services and cloud business.
- Cost of revenues for Online Advertising decreased by 14% to RMB9,241 million for the fourth quarter of 2019 on a year-on-year basis. The decrease was mainly due to lower content costs for video advertising as a result of fewer major content releases, and to cost management.

Other gains, net. We recorded net other gains of RMB3,630 million for the fourth quarter of 2019, which mainly comprised of non-IFRS adjustment items such as fair value gains due to increases in valuations of certain investee companies in verticals such as social media and FinTech services.

Selling and marketing expenses. Selling and marketing expenses increased by 17% to RMB6,712 million for the fourth quarter of 2019 on a year-on-year basis. The increase was mainly driven by greater marketing spending on services and products such as FinTech and cloud services, smart phone games and digital content services, including expenses attributable to Supercell. As a percentage of revenues, selling and marketing expenses decreased to 6% for the fourth quarter of 2019 from 7% for the fourth quarter of 2018.

General and administrative expenses. General and administrative expenses increased by 41% to RMB16,002 million for the fourth quarter of 2019 on a year-on-year basis. The increase was mainly due to greater R&D expenses and staff costs, including expenses attributable to Supercell. As a percentage of revenues, general and administrative expenses increased to 15% for the fourth quarter of 2019 from 13% for the fourth quarter of 2018.

Finance costs, net. Net finance costs increased by 102% to RMB2,767 million for the fourth quarter of 2019 on a year-on-year basis. The increase was primarily driven by greater interest expenses as a result of higher amount of indebtedness.

Share of (loss)/profit of associates and joint ventures. We recorded share of losses of associates and joint ventures of RMB1,328 million for the fourth quarter of 2019, compared to share of profit of RMB16 million for the fourth quarter of 2018. The change was mainly due to share of losses arising from non-cash fair value changes of investment portfolios booked by certain associates in the fourth quarter of 2019, compared to share of profit recorded in the same quarter last year.

Income tax expense. Income tax expense increased by 12% to RMB2,137 million for the fourth quarter of 2019 on a year-on-year basis.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 52% to RMB21,582 million for the fourth quarter of 2019 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 29% to RMB25,484 million for the fourth quarter of 2019.

Fourth Quarter of 2019 Compared to Third Quarter of 2019

The following table sets forth the comparative figures for the fourth quarter of 2019 and the third quarter of 2019:

	Unaudited	
	Three months ended	
	31 December	30 September
	2019	2019
	(RMB in millions)	
Revenues	105,767	97,236
Cost of revenues	<u>(59,659)</u>	<u>(54,757)</u>
Gross profit	46,108	42,479
Interest income	1,580	1,674
Other gains, net	3,630	932
Selling and marketing expenses	(6,712)	(5,722)
General and administrative expenses	<u>(16,002)</u>	<u>(13,536)</u>
Operating profit	28,604	25,827
Finance costs, net	(2,767)	(1,747)
Share of (loss)/profit of associates and joint ventures	<u>(1,328)</u>	<u>234</u>
Profit before income tax	24,509	24,314
Income tax expense	<u>(2,137)</u>	<u>(3,338)</u>
Profit for the period	<u>22,372</u>	<u>20,976</u>
Attributable to:		
Equity holders of the Company	21,582	20,382
Non-controlling interests	<u>790</u>	<u>594</u>
	<u>22,372</u>	<u>20,976</u>
Non-IFRS profit attributable to equity holders of the Company	<u>25,484</u>	<u>24,412</u>

Revenues. Revenues increased by 9% to RMB105.8 billion for the fourth quarter of 2019 on a quarter-on-quarter basis.

- Revenues from VAS increased by 3% to RMB52,308 million for the fourth quarter of 2019. Online games revenues grew by 6% to RMB30,286 million. The increase was primarily due to revenue contributions from domestic smart phone titles such as Peacekeeper Elite, as well as revenues contributed from Supercell commencing in the fourth quarter of 2019, partly offset by the decrease in revenues from PC client games. Social networks revenues were RMB22,022 million, broadly stable compared to the third quarter of 2019.
- Revenues from FinTech and Business Services increased by 12% to RMB29,920 million for the fourth quarter of 2019. The increase mainly reflected the growth of commercial payment, social payment and cloud services.
- Revenues from Online Advertising increased by 10% to RMB20,225 million for the fourth quarter of 2019. Social and others advertising revenues grew by 11% to RMB16,274 million. The increase was primarily driven by greater revenues from our mobile advertising network and Weixin Moments, benefitting from the positive seasonality of eCommerce promotional activities in the fourth quarter. Media advertising revenues increased by 8% to RMB3,951 million. The increase mainly reflected greater advertising revenues from our media platforms including Tencent Video, Tencent News and TME.

Cost of revenues. Cost of revenues increased by 9% to RMB59,659 million for the fourth quarter of 2019 on a quarter-on-quarter basis. The increase was primarily driven by greater channel costs, costs of FinTech services and content costs. As a percentage of revenues, cost of revenues was 56% for the fourth quarter of 2019, broadly stable compared to the third quarter of 2019.

- Cost of revenues for VAS increased by 7% to RMB26,120 million for the fourth quarter of 2019. The increase was primarily due to greater content costs for live broadcast services and major eSport events, as well as higher channel and content costs for smart phone games, including the channel costs attributable to Supercell.
- Cost of revenues for FinTech and Business Services increased by 11% to RMB21,520 million for the fourth quarter of 2019. The increase mainly reflected greater costs from increased volume of payment activities and greater scale of cloud services.
- Cost of revenues for Online Advertising decreased by 2% to RMB9,241 million for the fourth quarter of 2019. The decrease was primarily driven by lower content costs for our advertising-funded long form video service, partly offset by traffic acquisition costs due to revenue growth from our advertising network.

Selling and marketing expenses. Selling and marketing expenses increased by 17% to RMB6,712 million for the fourth quarter of 2019 on a quarter-on-quarter basis. The increase mainly reflected seasonally greater marketing spending on smart phone games and digital content services, as well as expenses attributable to Supercell.

General and administrative expenses. General and administrative expenses increased by 18% to RMB16,002 million for the fourth quarter of 2019 on a quarter-on-quarter basis. The increase was mainly due to greater R&D expenses and staff costs, including expenses attributable to Supercell.

Share of (loss)/profit of associates and joint ventures. We recorded share of losses of associates and joint ventures of RMB1,328 million for the fourth quarter of 2019, compared to share of profit of RMB234 million for the third quarter of 2019. The movement mainly reflected certain associates booking non-cash fair value changes to their investment portfolios.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 6% to RMB21,582 million for the fourth quarter of 2019 on a quarter-on-quarter basis. Non-IFRS profit attributable to equity holders of the Company increased by 4% to RMB25,484 million.

Other Financial Information

	Unaudited				
	Three months ended			Year ended	
	31 December	30 September	31 December	31 December	
	2019	2019	2018	2019	2018
	(RMB in millions, unless specified)				
EBITDA (a)	35,675	35,378	27,180	137,268	110,404
Adjusted EBITDA (a)	38,572	38,123	29,701	147,395	118,273
Adjusted EBITDA margin (b)	36%	39%	35%	39%	38%
Interest and related expenses	2,348	2,086	1,345	7,690	4,898
Net debt (c)	(15,552)	(7,173)	(12,170)	(15,552)	(12,170)
Capital expenditures (d)	16,869	6,632	4,564	32,369	23,941

Note:

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

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

	Unaudited			Year ended	
	31 December 2019	30 September 2019	31 December 2018	31 December 2019	31 December 2018
	(RMB in millions, unless specified)				
Operating profit	28,604	25,827	17,288	118,694	97,648
Adjustments:					
Interest income	(1,580)	(1,674)	(1,350)	(6,314)	(4,569)
Other (gains)/losses, net	(3,630)	(932)	2,139	(19,689)	(16,714)
Depreciation of property, plant and equipment and investment properties	3,549	3,232	2,520	12,574	8,423
Depreciation of right-of-use assets	893	806	–	3,049	–
Amortisation of intangible assets	7,839	8,119	6,583	28,954	25,616
EBITDA	35,675	35,378	27,180	137,268	110,404
Equity-settled share-based compensation	2,897	2,745	2,521	10,127	7,869
Adjusted EBITDA	<u>38,572</u>	<u>38,123</u>	<u>29,701</u>	<u>147,395</u>	<u>118,273</u>

Non-IFRS Financial Measures

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

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

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the fourth quarter of 2019 and 2018, the third quarter of 2019, and the years ended 31 December 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 31 December 2019							
Adjustments							
As reported	Share-based compensation	Net (gains)/ losses		Amortisation of intangible assets	Impairment provisions	Income tax effects	Non-IFRS
		from investee companies					
	(a)	(b)	(c)	(d)	(e)		
(RMB in millions, unless specified)							
Operating profit	28,604	3,269	(2,340)	701	72	–	30,306
Profit for the period	22,372	3,965	(1,412)	1,667	140	(93)	26,639
Profit attributable to equity holders	21,582	3,756	(1,403)	1,406	133	10	25,484
EPS (RMB per share)							
– basic	2.278						2.690
– diluted	2.248						2.643
Operating margin	27%						29%
Net margin	21%						25%

Unaudited three months ended 30 September 2019

	Adjustments						Non-IFRS
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	25,827	2,745	(1,814)	118	1,668	–	28,544
Profit for the period	20,976	3,568	(2,509)	1,544	1,981	(474)	25,086
Profit attributable to equity holders	20,382	3,475	(2,444)	1,491	1,971	(463)	24,412
EPS (RMB per share)							
– basic	2.151						2.577
– diluted	2.127						2.548
Operating margin	27%						29%
Net margin	22%						26%

Unaudited three months ended 31 December 2018

	Adjustments						Non-IFRS
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	17,288	2,459	1,579	198	864	–	22,388
Profit for the period	14,026	3,579	583	1,927	938	(813)	20,240
Profit attributable to equity holders	14,229	3,504	(60)	1,839	1,013	(795)	19,730
EPS (RMB per share)							
– basic	1.505						2.087
– diluted	1.489						2.065
Operating margin	20%						26%
Net margin	17%						24%

Year ended 31 December 2019

	Adjustments						Non-IFRS
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	118,694	10,500	(19,650)	1,051	4,006	–	114,601
Profit for the year	95,888	12,774	(20,818)	5,781	5,202	(1,238)	97,589
Profit attributable to equity holders	93,310	12,309	(20,720)	5,362	5,185	(1,095)	94,351
EPS (RMB per share)							
– basic	9.856						9.966
– diluted	9.643						9.729
Operating margin	31%						30%
Net margin	25%						26%

Year ended 31 December 2018

	Adjustments						Non-IFRS
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	97,648	7,900	(31,168)	524	17,577	–	92,481
Profit for the year	79,984	11,354	(32,513)	4,251	17,741	(525)	80,292
Profit attributable to equity holders	78,719	11,025	(33,073)	4,027	17,238	(467)	77,469
EPS (RMB per share)							
– basic	8.336						8.203
– diluted	8.228						8.097
Operating margin	31%						30%
Net margin	26%						26%

Note:

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

Liquidity and Financial Resources

Our cash positions as at 31 December 2019 and 30 September 2019 are as follows:

	Audited 31 December 2019 (RMB in millions)	Unaudited 30 September 2019
Cash and cash equivalents	132,991	145,607
Term deposits and others	<u>72,270</u>	<u>54,499</u>
	205,261	200,106
Borrowings	(126,952)	(112,148)
Notes payable	<u>(93,861)</u>	<u>(95,131)</u>
Net debt	<u>(15,552)</u>	<u>(7,173)</u>
Fair value of our stakes in listed investee companies (excluding subsidiaries)	<u>419,818</u>	<u>352,656</u>

As at 31 December 2019, the Group had net debt of RMB15,552 million, compared to net debt of RMB7,173 million as at 30 September 2019. The sequential increase in indebtedness mainly reflected payments for M&A initiatives and media contents, as well as the consolidation of indebtedness at Halti, partly offset by strong free cash flow generation.

For the fourth quarter of 2019, the Group had free cash flow of RMB37,896 million. This was a result of net cash flow generated from operating activities of RMB50,604 million, offset by payments for capital expenditure of RMB12,708 million.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

		Year ended 31 December	
	Note	2019 RMB' Million	2018 RMB' Million
Revenues			
Value-added Services		199,991	176,646
FinTech and Business Services (*)		101,355	73,138
Online Advertising		68,377	58,079
Others		7,566	4,831
		<u>377,289</u>	<u>312,694</u>
Cost of revenues	4	<u>(209,756)</u>	<u>(170,574)</u>
Gross profit		167,533	142,120
Interest income		6,314	4,569
Other gains, net	3	19,689	16,714
Selling and marketing expenses	4	(21,396)	(24,233)
General and administrative expenses	4	(53,446)	(41,522)
Operating profit		118,694	97,648
Finance costs, net		(7,613)	(4,669)
Share of (loss)/profit of associates and joint ventures, net		<u>(1,681)</u>	<u>1,487</u>
Profit before income tax		109,400	94,466
Income tax expense	5	<u>(13,512)</u>	<u>(14,482)</u>
Profit for the year		<u>95,888</u>	<u>79,984</u>
Attributable to:			
Equity holders of the Company		93,310	78,719
Non-controlling interests		<u>2,578</u>	<u>1,265</u>
		<u>95,888</u>	<u>79,984</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	6(a)	<u>9.856</u>	<u>8.336</u>
– diluted	6(b)	<u>9.643</u>	<u>8.228</u>

* Due to the changes on segment presentation (Note 2), the comparative figures in the consolidated income statement have been restated to conform with new presentation.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Year ended 31 December	
	2019	2018
	RMB'Million	RMB'Million
Profit for the year	<u>95,888</u>	<u>79,984</u>
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income of associates and joint ventures	125	23
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	(3)	–
Currency translation differences	3,089	4,133
Other fair value (losses)/gains, net	(2,139)	181
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Net gains/(losses) from changes in fair value of financial assets at fair value through other comprehensive income	23,119	(16,391)
Other fair value losses	(178)	(170)
	<u>24,013</u>	<u>(12,224)</u>
Total comprehensive income for the year	<u><u>119,901</u></u>	<u><u>67,760</u></u>
Attributable to:		
Equity holders of the Company	116,670	66,339
Non-controlling interests	3,231	1,421
	<u><u>119,901</u></u>	<u><u>67,760</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Note	As at 31 December	
		2019 RMB'Million	2018 RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment		46,824	35,091
Land use rights		15,609	7,106
Right-of-use assets	1	10,847	–
Construction in progress		3,935	4,879
Investment properties		855	725
Intangible assets		128,860	56,650
Investments in associates	8	213,614	219,215
Investments in joint ventures		8,280	8,575
Financial assets at fair value through profit or loss	9	128,822	91,702
Financial assets at fair value through other comprehensive income	10	81,721	43,519
Prepayments, deposits and other assets		23,442	21,531
Other financial assets		–	1,693
Deferred income tax assets		18,209	15,755
Term deposits		19,000	–
		<u>700,018</u>	<u>506,441</u>
Current assets			
Inventories		718	324
Accounts receivable	11	35,839	28,427
Prepayments, deposits and other assets		27,840	18,493
Other financial assets		375	339
Financial assets at fair value through profit or loss	9	7,114	6,175
Term deposits		46,911	62,918
Restricted cash		2,180	2,590
Cash and cash equivalents		132,991	97,814
		<u>253,968</u>	<u>217,080</u>
Total assets		<u><u>953,986</u></u>	<u><u>723,521</u></u>

		As at 31 December	
		2019	2018
Note		RMB'Million	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
	Share capital	–	–
	Share premium	35,271	27,294
	Shares held for share award schemes	(4,002)	(4,173)
	Other reserves	16,786	729
	Retained earnings	384,651	299,660
		<u>432,706</u>	<u>323,510</u>
	Non-controlling interests	<u>56,118</u>	<u>32,697</u>
	Total equity	<u>488,824</u>	<u>356,207</u>
LIABILITIES			
Non-current liabilities			
	Borrowings	14 104,257	87,437
	Notes payable	15 83,327	51,298
	Long-term payables	3,577	4,797
	Other financial liabilities	5,242	3,306
	Deferred income tax liabilities	12,841	10,964
	Lease liabilities	1 8,428	–
	Deferred revenue	7,334	7,077
		<u>225,006</u>	<u>164,879</u>
Current liabilities			
	Accounts payable	13 80,690	73,735
	Other payables and accruals	45,174	33,312
	Borrowings	14 22,695	26,834
	Notes payable	15 10,534	13,720
	Current income tax liabilities	9,733	10,210
	Other tax liabilities	1,245	1,049
	Other financial liabilities	5,857	1,200
	Lease liabilities	1 3,279	–
	Deferred revenue	60,949	42,375
		<u>240,156</u>	<u>202,435</u>
	Total liabilities	<u>465,162</u>	<u>367,314</u>
	Total equity and liabilities	<u>953,986</u>	<u>723,521</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to equity holders of the Company							Total equity RMB'Million
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share		Retained earnings RMB'Million	Total RMB'Million	Non- controlling interests RMB'Million	
			award schemes RMB'Million	Other reserves RMB'Million				
Balance at 1 January 2019	-	27,294	(4,173)	729	299,660	323,510	32,697	356,207
Comprehensive income								
Profit for the year	-	-	-	-	93,310	93,310	2,578	95,888
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates and joint ventures	-	-	-	126	-	126	(1)	125
- transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	-	-	-	(3)	-	(3)	-	(3)
- net gains from changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	22,601	-	22,601	518	23,119
- currency translation differences	-	-	-	2,928	-	2,928	161	3,089
- other fair value losses, net	-	-	-	(2,292)	-	(2,292)	(25)	(2,317)
Total comprehensive income for the year	-	-	-	23,360	93,310	116,670	3,231	119,901
Transfer of gains on disposal and deemed disposal of financial assets at fair value through other comprehensive income to retained earnings	-	-	-	(720)	720	-	-	-
Share of other changes in net assets of associates	-	-	-	2,322	-	2,322	-	2,322
Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates	-	-	-	(149)	-	(149)	-	(149)

Attributable to equity holders of the Company

	Shares held for share					Total	Non- controlling interests	Total equity
	Share capital	Share premium	award schemes	Other reserves	Retained earnings			
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Transactions with equity holders								
Capital injection	-	-	-	-	-	-	273	273
Employee share option schemes:								
– value of employee services	-	2,041	-	62	-	2,103	63	2,166
– proceeds from shares issued	-	272	-	-	-	272	-	272
Employee share award schemes:								
– value of employee services	-	7,303	-	379	-	7,682	279	7,961
– shares withheld for share award schemes	-	-	(1,186)	-	-	(1,186)	-	(1,186)
– vesting of awarded shares	-	(1,357)	1,357	-	-	-	-	-
Repurchase and cancellation of shares	-	(1,046)	-	-	-	(1,046)	-	(1,046)
Tax benefit from share-based payments	-	-	-	529	-	529	-	529
Profit appropriations to statutory reserves	-	-	-	734	(734)	-	-	-
Dividends	-	-	-	-	(8,305)	(8,305)	(365)	(8,670)
Non-controlling interests arising from								
business combinations	-	-	-	-	-	-	18,386	18,386
Disposal of a subsidiary	-	-	-	-	-	-	(1)	(1)
Acquisition of additional equity interests in								
non-wholly owned subsidiaries	-	276	-	(534)	-	(258)	(844)	(1,102)
Dilution of interests in subsidiaries	-	-	-	(355)	-	(355)	394	39
Transfer of equity interests of subsidiaries to								
non-controlling interests	-	488	-	(4,849)	-	(4,361)	3,631	(730)
Recognition of financial liabilities in respect of								
the put option from business combination	-	-	-	(4,722)	-	(4,722)	(1,626)	(6,348)
Total transactions with equity holders at their capacity as equity holders for the year	<u>-</u>	<u>7,977</u>	<u>171</u>	<u>(8,756)</u>	<u>(9,039)</u>	<u>(9,647)</u>	<u>20,190</u>	<u>10,543</u>
Balance at 31 December 2019	<u>-</u>	<u>35,271</u>	<u>(4,002)</u>	<u>16,786</u>	<u>384,651</u>	<u>432,706</u>	<u>56,118</u>	<u>488,824</u>

	Attributable to equity holders of the Company							Total equity RMB' Million
	Share capital RMB' Million	Share premium RMB' Million	Shares held for share award schemes RMB' Million	Other reserves RMB' Million	Retained earnings RMB' Million	Total RMB' Million	Non- controlling interests RMB' Million	
Balance at 31 December 2017, as previously reported	-	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093
Adjustment on adoption of IFRS 9	-	-	-	(16,210)	16,210	-	-	-
Balance at 1 January 2018	-	22,204	(3,970)	18,948	218,892	256,074	21,019	277,093
Comprehensive income								
Profit for the year	-	-	-	-	78,719	78,719	1,265	79,984
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates and joint ventures	-	-	-	23	-	23	-	23
- net losses from changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	(16,095)	-	(16,095)	(296)	(16,391)
- currency translation differences	-	-	-	3,681	-	3,681	452	4,133
- other fair value gains, net	-	-	-	11	-	11	-	11
Total comprehensive income for the year	-	-	-	(12,380)	78,719	66,339	1,421	67,760
Transfer of gains on disposal of financial assets at fair value through other comprehensive income to retained earnings	-	-	-	(9,561)	9,561	-	-	-
Share of other changes in net assets of associates	-	-	-	2,861	-	2,861	-	2,861
Transactions with equity holders								
Capital injection	-	-	-	-	-	-	140	140
Employee share option schemes:								
- value of employee services	-	1,983	-	63	-	2,046	57	2,103
- proceeds from shares issued	-	525	-	-	-	525	-	525
Employee share award schemes:								
- value of employee services	-	5,022	-	466	-	5,488	277	5,765
- shares withheld for share award schemes	-	-	(2,187)	-	-	(2,187)	-	(2,187)
- vesting of awarded shares	-	(1,984)	1,984	-	-	-	-	-
Repurchase and cancellation of shares	-	(783)	-	-	-	(783)	-	(783)
Tax benefit from share-based payments	-	-	-	148	-	148	-	148
Profit appropriations to statutory reserves	-	-	-	517	(517)	-	-	-
Dividends	-	-	-	-	(6,995)	(6,995)	(618)	(7,613)
Non-controlling interests arising from business combinations	-	-	-	-	-	-	1,003	1,003
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	327	-	(877)	-	(550)	1,664	1,114
Partial disposal of subsidiaries	-	-	-	-	-	-	(31)	(31)
Dilution of interests in subsidiaries	-	-	-	2,836	-	2,836	5,879	8,715
Transfer of equity interests of subsidiaries to non-controlling interests	-	-	-	(1,886)	-	(1,886)	1,886	-
Recognition of financial liabilities in respect of the put option from business combination	-	-	-	(406)	-	(406)	-	(406)
Total transactions with equity holders at their capacity as equity holders for the year	-	5,090	(203)	861	(7,512)	(1,764)	10,257	8,493
Balance at 31 December 2018	-	27,294	(4,173)	729	299,660	323,510	32,697	356,207

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Year ended 31 December	
	2019	2018
	RMB'Million	RMB'Million (Note 1)
Net cash flows generated from operating activities	148,590	110,936
Net cash flows used in investing activities	(116,170)	(151,913)
Net cash flows generated from financing activities	<u>1,672</u>	<u>30,887</u>
Net increase/(decrease) in cash and cash equivalents	34,092	(10,090)
Cash and cash equivalents at beginning of the year	97,814	105,697
Exchange gains on cash and cash equivalents	<u>1,085</u>	<u>2,207</u>
Cash and cash equivalents at end of the year	<u><u>132,991</u></u>	<u><u>97,814</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	60,907	38,696
Term deposits and highly liquid investments with initial terms within three months	<u>72,084</u>	<u>59,118</u>
	<u><u>132,991</u></u>	<u><u>97,814</u></u>

Note:

1 General information, basis of preparation and presentation

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

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

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRSs. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of FVPL, FVOCI, certain other financial liabilities and derivative financial instruments, which are carried at fair value.

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2019:

IFRS 16	Leases
IFRS 9 (amendment)	Prepayment Features with Negative Compensation
IAS 28 (amendment)	Long-term Interests in Associates and Joint Ventures
IAS 19 (amendment)	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments

The Group has changed its accounting policies following the adoption of IFRS 16 on 1 January 2019. In accordance with the transitional provision under IFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019.

All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The impact on transition is summarised as below:

	1 January 2019
	RMB' Million
Right-of-use assets	9,688
Lease liabilities	(9,955)
Prepayments, deposits and other assets	(23)
Other payables and accruals	290

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term within 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

Upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities.

Since the first quarter of 2019, the Group has reclassified interest paid in cash flow presentation from operating activities to financing activities, which better reflect the nature of business. Comparative figures have been reclassified to conform with the current period presentation.

2 Segment information

In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand the Group's revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards, both in the internal reports to the chief operating decision makers and in the consolidated financial statements of the Group. The new "FinTech and Business Services" segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative. The comparative figures in the consolidated income statement and the note have been restated to conform with the new presentation. The Board believes that the above changes in segment information better reflect current market trends, as well as resource allocation and future business development of the Group.

The Group has the following reportable segments for the years ended 31 December 2019 and 2018:

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

Subsequent to the change, the "Others" business segment now consists of the financials of investments in, production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities.

There were no material inter-segment sales during the years ended 31 December 2019 and 2018. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2019 and 2018 is as follows:

	Year ended 31 December 2019				
		FinTech and			
	VAS	Business	Online	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>199,991</u>	<u>101,355</u>	<u>68,377</u>	<u>7,566</u>	<u>377,289</u>
Gross profit	<u>105,905</u>	<u>27,524</u>	<u>33,517</u>	<u>587</u>	<u>167,533</u>
Depreciation	3,461	6,669	2,065	108	12,303
Amortisation	<u>14,710</u>	<u>–</u>	<u>9,977</u>	<u>3,115</u>	<u>27,802</u>
	Year ended 31 December 2018				
		FinTech and			
	VAS	Business	Online	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
		(Restated)		(Restated)	
Segment revenues	<u>176,646</u>	<u>73,138</u>	<u>58,079</u>	<u>4,831</u>	<u>312,694</u>
Gross profit	<u>102,685</u>	<u>18,540</u>	<u>20,806</u>	<u>89</u>	<u>142,120</u>
Depreciation	1,996	3,514	1,376	144	7,030
Amortisation	<u>11,663</u>	<u>–</u>	<u>12,462</u>	<u>573</u>	<u>24,698</u>

3 Other gains, net

	2019 RMB'Million	2018 RMB'Million
Net gains on disposals and deemed disposals of investee companies (a)	8,492	2,932
Net fair value gains on FVPL (b)	9,511	28,738
Subsidies and tax rebates	4,263	3,456
Impairment provision/(reversal) for investee companies and intangible assets arising from acquisitions (c)	(4,006)	(17,577)
Net fair value gains on other financial instruments	1,647	1,019
Dividend income	1,014	686
Donations to Tencent Charity Funds	(850)	(730)
Others	(382)	(1,810)
	<u>19,689</u>	<u>16,714</u>

Note:

- (a) The disposal and deemed disposal gains of approximately RMB8,492 million recognised during the year ended 31 December 2019 mainly comprised the following:
- net gains of approximately RMB4,859 million (2018: RMB1,661 million) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 8). These investee companies are principally engaged in Internet-related business; and
 - aggregate net gains of approximately RMB3,633 million (2018: RMB1,271 million) on disposals, partial disposals or deemed disposals of various investments of the Group.

- (b) Net fair value gains on FVPL of approximately RMB9,511 million (Note 9) recognised during the year ended 31 December 2019 mainly comprised the following:
- aggregate gains of approximately RMB1,886 million (2018: RMB22,215 million) arising from reclassification of several investments principally engaged in Internet-related business from FVPL to investments in associates due to the conversion of the Group’s redeemable instruments or preferred shares of these investee companies into their ordinary shares and the Group has board representation upon their respective IPOs; and
 - net gains of approximately RMB7,625 million (2018: RMB6,523 million) from fair value changes of FVPL.
- (c) The impairment provision/(reversal) for investee companies and intangible assets arising from acquisitions mainly comprised the following:

	2019	2018
	RMB’Million	RMB’Million
Investments in associates (Note 8(d))	3,877	14,069
Investments in joint ventures	(54)	2,328
Intangible assets arising from acquisitions	183	1,180
	<u>4,006</u>	<u>17,577</u>

4 Expenses by nature

	2019 RMB'Million	2018 RMB'Million
Transaction costs (a)	85,702	69,976
Employee benefits expenses (b)	53,123	42,153
Content costs (excluding amortisation of intangible assets)	48,321	39,061
Amortisation of intangible assets (c)	28,954	25,616
Bandwidth and server custody fees (excluding depreciation of right-of-use assets)	16,284	15,818
Depreciation of property, plant and equipment, investment properties and right-of-use assets	15,623	8,423
Promotion and advertising expenses	16,405	19,806
Travelling and entertainment expenses	1,773	1,450

Note:

- (a) Transaction costs primarily consist of bank handling fees, channel and distribution costs.
- (b) During the year ended 31 December 2019, the Group incurred expenses for the purpose of R&D of approximately RMB30,387 million (2018: RMB22,936 million), which comprised employee benefits expenses of approximately RMB24,478 million (2018: RMB19,088 million).

During the year ended 31 December 2019, employee benefits expenses included the share-based compensation expenses of approximately RMB10,500 million (2018: RMB7,900 million).

No significant development expenses had been capitalised for the years ended 31 December 2019 and 2018.

- (c) Included the amortisation charges of intangible assets mainly in respect of media contents.

During the year ended 31 December 2019, amortisation of intangible assets included the amortisation of intangible assets resulting from business combinations of approximately RMB1,051 million (2018: RMB524 million).

5 Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2019 and 2018.

(b) Hong Kong profit tax

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the years ended 31 December 2019 and 2018.

(c) PRC CIT

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the Mainland China for the years ended 31 December 2019 and 2018. The general PRC CIT rate is 25% in 2019 and 2018.

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

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

(d) Corporate income tax in other jurisdictions

Income tax on profits arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profit for the year at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

(e) **Withholding tax**

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

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

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

	2019	2018
	RMB'Million	RMB'Million
Current income tax	14,730	15,091
Deferred income tax	<u>(1,218)</u>	<u>(609)</u>
	<u>13,512</u>	<u>14,482</u>

6 Earnings per share

(a) **Basic**

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

	2019	2018
Profit attributable to equity holders of the Company (RMB'Million)	<u>93,310</u>	<u>78,719</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,468</u>	<u>9,444</u>
Basic EPS (RMB per share)	<u>9.856</u>	<u>8.336</u>

(b) **Diluted**

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

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

	2019	2018
Profit attributable to equity holders of the Company (RMB'Million)	93,310	78,719
Dilution effect arising from share-based awards issued by non-wholly owned subsidiaries and associates (RMB'Million)	<u>(708)</u>	<u>—</u>
Profit attributable to equity holders of the Company for the calculation of diluted EPS (RMB'Million)	<u>92,602</u>	<u>78,719</u>
Weighted average number of ordinary shares in issue (million shares)	9,468	9,444
Adjustments for share options and awarded shares (million shares)	<u>135</u>	<u>124</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,603</u>	<u>9,568</u>
Diluted EPS (RMB per share)	<u>9.643</u>	<u>8.228</u>

7 Dividends

The dividends amounting to RMB8,305 million (final dividend for 2018: RMB6,776 million) were paid during the year ended 31 December 2019.

A special dividend of approximately HKD250 million (equivalent to approximately RMB219 million) was declared in December 2018 to the shareholders of the Company by way of a distribution in respect of the separate listing of TME, a non-wholly owned subsidiary of the Group on the New York Stock Exchange. Such dividend was settled by the Group with cash and shares of TME in February 2019.

A final dividend in respect of the year ended 31 December 2019 of HKD1.20 per share (2018: HKD1.00 per share) was proposed pursuant to a resolution passed by the Board on 18 March 2020 and subject to the approval of the shareholders at the 2020 AGM. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

8 Investments in associates

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities (Note)	141,350	130,633
– Unlisted entities	<u>72,264</u>	<u>88,582</u>
	<u>213,614</u>	<u>219,215</u>

Note:

As at 31 December 2019, the fair value of the investments in associates which are listed entities was RMB334,688 million (31 December 2018: RMB187,339 million).

Movement of investments in associates is analysed as follows:

	2019	2018
	RMB'Million	RMB'Million
At beginning of the year	219,215	113,779
Additions (a)	14,077	40,918
Transfers (b)	(18,948)	71,593
Deemed disposal gains (Note 3(a))	4,859	1,661
Share of (loss)/profit of associates	(1,371)	1,301
Share of other comprehensive income of associates	130	24
Share of other changes in net assets of associates	2,322	2,861
Dividends	(550)	(908)
Disposals (c)	(3,555)	(725)
Impairment provision, net (d)	(3,877)	(14,069)
Currency translation differences	<u>1,312</u>	<u>2,780</u>
At end of the year	<u>213,614</u>	<u>219,215</u>

Note:

- (a) During the year ended 31 December 2019, the Group acquired certain new associates and made additional investments in existing associates with an aggregate amount of approximately RMB14,077 million. These associates are principally engaged in transportation network, retail and other Internet-related business.
- (b) During the year ended 31 December 2019, transfers mainly comprised the following:
 - (i) investment in an associate of approximately RMB17,735 million, which held majority interests in a mobile game developer, was transferred to investment in a subsidiary (Note 16);
 - (ii) associates achieved in stages of an aggregate amount of approximately RMB6,127 million, which mainly included approximately RMB3,202 million transferred from FVPL due to the conversion of redeemable instruments or preferred shares into ordinary shares upon their IPOs, and approximately RMB2,874 million transferred from financial instruments due to acquiring board representatives or converting the convertible promissory note; and
 - (iii) associates of an aggregate amount of approximately RMB6,029 million were transferred to FVPL and approximately RMB1,311 million were transferred to FVOCI as a result of changes in nature of these investments.
- (c) During the year ended 31 December 2019, a company listed in the PRC completed a substantial assets reorganisation pursuant to which it acquired the entire equity interest of an associate of the Group through a share swap. Upon completion of the aforesaid reorganisation, the Group's equity interest in that associate was exchanged for approximately 5% of the issued ordinary shares of the listed company valued at approximately RMB3,526 million. Since the Group has no board representative in the listed company and this investment is not held for trading, this investment was recognised as FVOCI.
- (d) The Group made an aggregate impairment provision of RMB3,877 million (2018: RMB14,069 million) against the carrying amounts of certain investments in associates during the year ended 31 December 2019, which includes impairment loss of approximately RMB5,427 million recognised and approximately RMB1,550 million reversed. The impairment losses mainly resulted from revisions of financial/business outlook of the associates and changes in the market environment of the underlying business.

9 Financial assets at fair value through profit or loss

FVPL include the following:

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Included in non-current assets:		
Investments in listed entities	10,408	9,123
Investments in unlisted entities	111,761	78,234
Others	<u>6,653</u>	<u>4,345</u>
	<u>128,822</u>	<u>91,702</u>
Included in current assets:		
Investment in a listed entity	15	–
Treasury investments and others	<u>7,099</u>	<u>6,175</u>
	<u>7,114</u>	<u>6,175</u>
	<u><u>135,936</u></u>	<u><u>97,877</u></u>

Movement of FVPL is analysed as follows:

	2019	2018
	RMB'Million	RMB'Million
At beginning of the year	97,877	–
Adjustment on adoption of IFRS 9	–	95,497
Additions (a)	44,618	60,807
Transfers ((b) and Note 8(b))	(1,421)	(78,816)
Changes in fair value (Note 3(b))	9,511	28,738
Disposals (c)	(16,664)	(14,805)
Currency translation differences	<u>2,015</u>	<u>6,456</u>
At end of the year	<u><u>135,936</u></u>	<u><u>97,877</u></u>

Note:

- (a) During the year ended 31 December 2019, the Group's additions to FVPL mainly comprised the following:
- (i) an investment in a retail company of approximately USD500 million (equivalent to approximately RMB3,550 million) to subscribe for approximately 21% of its equity interests in form of preferred shares, on an outstanding basis;
 - (ii) an additional investment in a real estate O2O platform in the PRC of approximately USD320 million (equivalent to approximately RMB2,258 million). As at 31 December 2019, the Group's equity interests in this investee company are approximately 9% on an outstanding basis; and
 - (iii) new investments and additional investments with an aggregate amount of approximately RMB38,810 million in listed and unlisted entities mainly operating in the United States, the PRC and other Asian countries. These companies are principally engaged in social networks, Internet platform, technology and other Internet-related business. None of the above investment was individually significant that trigger any disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time of inception.
- (b) During the year ended 31 December 2019, except as described in Note 8(b), transfers also mainly comprised an equity investment designated as FVOCI due to the conversion of the redeemable instruments into ordinary shares amounting to RMB1,395 million upon its IPO.
- (c) During the year ended 31 December 2019, the Group disposed of certain investments with an aggregate amount of RMB16,664 million, which are mainly engaged in the provision of Internet-related services.

10 Financial assets at fair value through other comprehensive income

FVOCI include the following:

	As at 31 December	
	2019 RMB'Million	2018 RMB'Million
Equity investments in listed entities		
– United States	59,449	33,120
– Mainland China	11,858	5,365
– France	2,691	3,093
– Hong Kong	460	–
– United Kingdom	249	–
	<u>74,707</u>	<u>41,578</u>
Equity investments in unlisted entities	<u>7,014</u>	<u>1,941</u>
	<u>81,721</u>	<u>43,519</u>

Movement of FVOCI is analysed as follows:

	2019 RMB'Million	2018 RMB'Million
At beginning of the year	43,519	–
Adjustment on adoption of IFRS 9	–	58,515
Additions ((a) and Note 8(c))	13,768	17,689
Transfers	211	3,577
Changes in fair value	23,349	(16,578)
Disposals	(702)	(22,200)
Currency translation differences	<u>1,576</u>	<u>2,516</u>
At end of the year	<u>81,721</u>	<u>43,519</u>

Note:

- (a) During the year ended 31 December 2019, except as described in Note 8(c), the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB10,242 million in companies which are principally engaged in Internet-related business.

11 Accounts receivable

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

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
0 ~ 30 days	15,582	11,200
31 ~ 60 days	10,222	7,695
61 ~ 90 days	5,035	4,201
Over 90 days	<u>5,000</u>	<u>5,331</u>
	<u>35,839</u>	<u>28,427</u>

Receivable balances as at 31 December 2019 and 31 December 2018 mainly represented amounts due from online advertising customers and agencies, content production related customers, FinTech and cloud customers, and third party platform providers.

Some online advertising customers and agencies are usually granted with a credit period within 90 days immediately following the month-end in which the relevant obligations under the relevant contracted advertising orders are delivered. Third party platform providers usually settle the amounts due by them within 60 days. Other customers, mainly including content production related customers and FinTech and cloud customers, are usually granted with a credit period within 90 days.

12 Share-based payments

(a) Share option schemes

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

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

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

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		Total No. of options
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	
At 1 January 2019	HKD185.25	51,499,010	-	-	HKD374.52	36,277,234	87,776,244
Granted	-	-	-	-	HKD374.01	26,249,615	26,249,615
Exercised	HKD158.51	(1,138,985)	-	-	HKD272.36	(473,756)	(1,612,741)
Lapsed/forfeited	HKD148.90	(1,225)	-	-	HKD320.56	(314,900)	(316,125)
At 31 December 2019	HKD185.86	<u>50,358,800</u>	-	-	HKD375.36	<u>61,738,193</u>	<u>112,096,993</u>
Exercisable as at 31 December 2019	HKD172.30	<u>33,855,872</u>	-	-	HKD363.68	<u>10,997,475</u>	<u>44,853,347</u>
At 1 January 2018	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
Granted	-	-	-	-	HKD405.73	27,723,850	27,723,850
Exercised	HKD110.85	(3,966,835)	HKD31.70	(2,500,000)	HKD272.36	(424,414)	(6,891,249)
Lapsed/forfeited	HKD136.67	(44,403)	-	-	HKD298.36	(178,062)	(222,465)
At 31 December 2018	HKD185.25	<u>51,499,010</u>	-	-	HKD374.52	<u>36,277,234</u>	<u>87,776,244</u>
Exercisable as at 31 December 2018	HKD160.50	<u>22,419,156</u>	-	-	HKD274.86	<u>1,760,025</u>	<u>24,179,181</u>

During the year ended 31 December 2019, 3,506,580 options were granted to an executive director of the Company (2018: 3,215,800 options were granted to an executive director of the Company).

(b) Share award schemes

The Company has adopted the Share Award Schemes as of 31 December 2019, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the years ended 31 December 2019 and 2018 are as follows:

	Number of awarded shares	
	2019	2018
At beginning of the year	50,247,895	63,636,254
Granted	53,096,782	20,940,149
Lapsed/forfeited	(3,191,477)	(2,882,349)
Vested and transferred	<u>(23,537,445)</u>	<u>(31,446,159)</u>
At end of the year	<u>76,615,755</u>	<u>50,247,895</u>
Vested but not transferred as at the end of the year	<u>46,313</u>	<u>45,432</u>

During the year ended 31 December 2019, 59,484 awarded shares were granted to five independent non-executive directors of the Company (2018: 39,500 awarded shares were granted to four independent non-executive directors of the Company).

13 Accounts payable

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

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million (Note)
0 ~ 30 days	67,054	63,615
31 ~ 60 days	2,975	1,832
61 ~ 90 days	1,442	1,149
Over 90 days	<u>9,219</u>	<u>7,139</u>
	<u>80,690</u>	<u>73,735</u>

Note:

To help investors better understand the Group's financial position, ageing analysis of accounts payable has been changed from recognition date to invoice date and the amount of accrual payables were categorised within 30 days. The comparative figures have been restated to conform with the new presentation.

14 Borrowings

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	88,354	70,938
Non-current portion of long-term EUR bank borrowings, unsecured (a)	1,172	–
Non-current portion of long-term RMB bank borrowings, unsecured (a)	10,196	11,189
Non-current portion of long-term HKD bank borrowings, unsecured (a)	4,535	5,310
	<u>104,257</u>	<u>87,437</u>
Included in current liabilities:		
USD bank borrowings, unsecured (b)	6,627	16,403
HKD bank borrowings, unsecured (b)	9,298	3,368
RMB bank borrowings, unsecured (b)	902	628
RMB bank borrowings, secured (b)	201	–
Current portion of long-term USD bank borrowings, unsecured (a)	140	5,628
Current portion of long-term RMB bank borrowings, – unsecured (a)	4,633	332
– secured (a)	–	475
Current portion of long-term HKD bank borrowings, unsecured (a)	894	–
	<u>22,695</u>	<u>26,834</u>
	<u><u>126,952</u></u>	<u><u>114,271</u></u>

Note:

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

	31 December 2019		31 December 2018	
	Amount (Million)	Interest rate (per annum)	Amount (Million)	Interest rate (per annum)
USD bank borrowings	USD12,685	LIBOR + 0.70% ~ 1.27%	USD11,156	LIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875%
EUR bank borrowings	EUR150	0.52%	–	–
HKD bank borrowings	HKD6,070	HIBOR + 0.70% ~ 0.80%	HKD6,070	HIBOR + 0.70% ~ 0.85%
RMB bank borrowings	RMB14,829	4.18% ~ 5.70%	RMB11,996	4.18% ~ 9.00%

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

	31 December 2019		31 December 2018	
	Amount (Million)	Interest rate (per annum)	Amount (Million)	Interest rate (per annum)
USD bank borrowings	USD950	LIBOR + 0.5%	USD2,390	LIBOR + 0.50% ~ 0.55%
HKD bank borrowings	HKD10,395	HIBOR + 0.45% ~ 0.50%	HKD3,850	HIBOR + 0.50% ~ 0.55%
RMB bank borrowings	RMB1,103	3.60% ~ 5.22%	RMB628	5.22% ~ 5.44%

15 Notes payable

	As at 31 December	
	2019	2018
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	83,327	48,501
Non-current portion of long-term HKD notes payable	<u>—</u>	<u>2,797</u>
	<u>83,327</u>	<u>51,298</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	7,672	13,720
Current portion of long-term HKD notes payable	<u>2,862</u>	<u>—</u>
	<u>10,534</u>	<u>13,720</u>
	<u><u>93,861</u></u>	<u><u>65,018</u></u>

Note:

The aggregate principal amounts of USD notes payable and HKD notes payable were USD13,100 million (2018: USD9,100 million) and HKD3,200 million (2018: HKD3,200 million), respectively. Applicable interest rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910% (2018: rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605%) per annum.

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

On 11 April 2019, the Company issued five tranches of senior notes under the Global Medium Term Note Programme with an aggregate principal amount of USD6 billion as set out below.

	Amount (USD'Million)	Interest Rate (per annum)	Due
2024 Notes	1,250	3.280%	2024
2024 Floating Rate Notes	750	3-month USD LIBOR + 0.910%	2024
2026 Notes	500	3.575%	2026
2029 Notes	3,000	3.975%	2029
2049 Notes	<u>500</u>	4.525%	2049
	<u><u>6,000</u></u>		

During the year ended 31 December 2019, the notes payable with an aggregate principal amount of USD2,000 million issued in April 2014 reached their maturity and were repaid in full by the Group.

16 Step-up acquisition of Halti

On 21 October 2019 (the “Acquisition Date”), the Group acquired additional 44,000 ordinary voting shares in an associate, Halti, by converting the entire principal outstanding and relevant interest under the USD40 million convertible bond issued by Halti into ordinary voting shares (“Conversion”) when it became exercisable. As at the Acquisition Date, Halti held a majority interest in and controlled a mobile game developer Supercell. After the Conversion, the Group increased its equity voting interest in Halti from 50% to 51.2%, and considered it has sufficient power to control Halti. As a result, Halti was accounted for as a subsidiary of the Group upon the Conversion (“Step-up Acquisition”). The equity interest held under investment in an associate was re-measured to fair value and a remeasurement gain of approximately RMB1,550 million was recognised in profit or loss.

Goodwill of approximately RMB59,406 million was recognised as a result of the Step-up Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose. The Group chose to record the non-controlling equity interests in Halti at fair value on Acquisition Date.

The following table summarises the purchase consideration, fair value of assets acquired, liabilities assumed and the non-controlling interest recognised as at the Acquisition Date.

RMB'Million

Total consideration:

Fair value of the previously held interests	
– <i>Equity interests in Halmi</i>	17,735
– <i>the Group's direct interests in Supercell</i>	2,017
Convertible bonds	312
Financial guarantee contracts	<u>(977)</u>
	<u><u>19,087</u></u>

Recognised amounts of identifiable assets acquired and liabilities assumed:

Cash and cash equivalents	1,901
Restricted cash	421
Term deposits	2,652
Financial assets at fair value through profit or loss	1,408
Accounts receivable	1,370
Prepayments, deposits and other assets	2,819
Intangible assets	14,644
Other assets	722
Deferred revenue	(6,066)
Borrowings	(17,934)
Other financial liabilities	(12,389)
Long-term payables	(8,048)
Other liabilities	(564)
Deferred income tax liabilities	<u>(2,898)</u>

Total identifiable net assets	(21,962)
Non-controlling interests	(18,357)
Goodwill	<u>59,406</u>
	<u><u>19,087</u></u>

Note:

Prior to the Step-up Acquisition, Hali has granted put option to non-controlling shareholders of Supercell, and the non-controlling shareholders shall have the right to request Hali to purchase their vested shares at a pre-determined schedule. The put price was determined based on the financial performance of Supercell and a pre-determined formula that was set out in the respective shareholders' agreements. Accordingly, the put liability of approximately RMB7,452 million which was measured at the present value of the estimated future cash outflows was recognised upon the completion of the Step-up Acquisition. The put liability was subsequently measured at amortised cost.

The Group's revenue for the year would be increased by not more than 5% and the results for the year would not be materially different should the Step-up Acquisition otherwise occur on 1 January 2019.

The related transaction costs of the Step-up Acquisition are not material to the Group's consolidated financial statements.

17 Subsequent events

With respect to the outbreak of the coronavirus pandemic ("Pandemic"), the Group has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this announcement. The Group will keep continuous attention on the situation of the Pandemic and react actively to its impacts on the operation and financial position of the Group.

OTHER INFORMATION

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

During the year ended 31 December 2019, the Company repurchased 3,486,700 shares on the Stock Exchange for an aggregate consideration of approximately HKD1.16 billion before expenses. The repurchased shares were subsequently cancelled. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in 2019	No. of shares purchased	Purchase consideration per share		Aggregate consideration paid HKD
		Highest price paid HKD	Lowest price paid HKD	
August	362,200	327.00	312.40	116,330,916
September	2,294,500	351.00	323.60	776,104,729
October	<u>830,000</u>	327.80	317.40	<u>268,272,462</u>
Total	<u>3,486,700</u>			<u>1,160,708,107</u>

Save as disclosed above and in the "Financial Information" section, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2019.

Closure of Register of Members

(a) Entitlement to Attend and Vote at the 2020 AGM

The register of members of the Company will be closed from Friday, 8 May 2020 to Wednesday, 13 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2020 AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 7 May 2020.

(b) Entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from Tuesday, 19 May 2020 to Wednesday, 20 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 18 May 2020.

Employee and Remuneration Policies

As at 31 December 2019, the Group had 62,885 employees (2018: 54,309). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the year ended 31 December 2019 was RMB53,123 million (2018: RMB42,153 million).

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2019. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Compliance with the Corporate Governance Code

Save as disclosed in the 2019 interim report and the corporate governance report in the 2018 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2019, complied with the code provisions as set out in the CG Code.

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

Publication of the Annual Results and Annual Report

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

APPRECIATION

On behalf of the Board, I would like to express our heartfelt gratitude to our conscientious and professional staff and management team for their hard work during the past year. I would also like to extend our thanks and appreciation to our shareholders and stakeholders who continue to provide us with great support and confidence. We believe that our continued commitment to building an ecosystem in the Consumer Internet and Industrial Internet sectors that brings the needs of our users to the forefront will produce long-term value for our shareholders.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 18 March 2020

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

Executive Directors:

Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:

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

Independent Non-Executive Directors:

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

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

DEFINITION

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

Term	Definition
“2020 AGM”	the annual general meeting of the Company to be held on 13 May 2020 or any adjournment thereof
“AI”	artificial intelligence
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DAU”	daily active user accounts
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“EUR”	the lawful currency of European Union
“FIFA”	International Federation of Association Football
“FinTech”	financial technology
“FVOCI”	financial assets at fair value through other comprehensive income

“FVPL”	financial assets at fair value through profit or loss
“Group”	the Company and its subsidiaries
“Halti”	Halti S.A., the consortium company formed under the laws of Luxembourg for the sole purpose of investment in Supercell
“HIBOR”	Hong Kong InterBank Offered Rate
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRIC”	International Financial Reporting Interpretations Committee
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“IPO”	initial public offering
“KPL”	King Pro League
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LoL”	League of Legends
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“NBA”	National Basketball Association

“O2O”	online-to-offline, or offline-to-online
“PC”	personal computer
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017
“PRC” or “China”	the People’s Republic of China
“PRC CIT”	PRC corporate income tax as defined in the “Corporate Income Tax Law of the People’s Republic of China”
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PUBG”	PlayerUnknown’s Battlegrounds
“R&D”	research and development
“Riot Games”	Riot Games, Inc., a company established in the US
“RMB”	the lawful currency of the PRC

“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, the share award scheme adopted by the Company on 13 November 2013, and the share award scheme adopted by the Company on 25 November 2019, as amended from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland
“Tencent Charity Funds”	charity funds established by the Group
“TME”	Tencent Music Entertainment Group, a limited liability company incorporated under the laws of the Cayman Islands and the shares of which are listed on the New York Stock Exchange
“United States” or “US”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services