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This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No securities may be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the Company making the offer and its management and financial statements. The Company does not intend to make any public offering of securities in the United States.

Tencent 腾讯

TENCENT HOLDINGS LIMITED

騰訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

UPDATE OF GLOBAL MEDIUM TERM NOTE PROGRAMME

PROPOSED ISSUE OF NOTES UNDER THE GLOBAL MEDIUM TERM NOTE PROGRAMME

AND

EXTRACT OF FINANCIAL INFORMATION

References are made to the announcements of the Company dated 10 April 2014, 24 April 2015, 9 January 2018, 1 April 2019 and 25 May 2020 in relation to the establishment, increase of the Programme Limit and update of the Programme.

The Board is pleased to announce that on 13 April 2021, the Company has updated the Programme to include, among other things, the Company's recent corporate and financial information and increase the Programme Limit from US$20 billion to US$30 billion (or its equivalent in other currencies).

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

As at the date of this announcement, the Company has an aggregate principal amount of US$18 billion outstanding Notes under the Programme.

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

The Company has appointed Morgan Stanley, BofA Securities and Deutsche Bank as the arrangers under the Programme.

Morgan Stanley, BofA Securities, Goldman Sachs (Asia) L.L.C. and HSBC are the joint global coordinators in respect of the Proposed Notes Issue.

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

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

UPDATE OF THE PROGRAMME

Introduction

References are made to the announcements of the Company dated 10 April 2014, 24 April 2015, 9 January 2018, 1 April 2019 and 25 May 2020 in relation to the establishment, increase of the Programme Limit and update of the Programme.

The Board is pleased to announce that on 13 April 2021, the Company has updated the Programme to include, among other things, the Company's recent corporate and financial information and increase the Programme Limit from US$20 billion to US$30 billion (or its equivalent in other currencies).

The Company has appointed Morgan Stanley, BofA Securities and Deutsche Bank as the arrangers under the Programme by way of a dealer agreement dated 10 April 2014 (as amended and restated by an amended and restated dealer agreement dated 24 April 2015 which was further amended on 1 April 2019, 25 May 2020 and 13 April 2021).

As at the date of this announcement, the Company has an aggregate principal amount of US$18 billion outstanding Notes under the Programme.

Listing

An application has been made by the Company to the Stock Exchange for the listing of the Programme with the increased Programme Limit of US$30 billion within a period of 12 months after 13 April 2021 by way of debt issues (to certain professional investors only). In relation to any issue of the Notes, the Company has the option to agree with the relevant dealer(s) to list the Notes on the Stock Exchange or any other recognised stock exchanges.

Proposed use of net proceeds

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

PROPOSED NOTES ISSUE

Introduction

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

The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interests. Morgan Stanley, BofA Securities, Goldman Sachs (Asia) L.L.C. and HSBC are the joint global coordinators in respect of the Proposed Notes Issue.

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

Listing

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

GENERAL

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

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

DEFINITION

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

Term	**Definition**
"Board"	the board of directors of the Company
"BofA Securities"	Merrill Lynch (Asia Pacific) Limited
"Company"	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the SEHK
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region
"HSBC"	The Hongkong and Shanghai Banking Corporation Limited

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Morgan Stanley"	Morgan Stanley & Co. International plc
"Non-U.S. Persons"	persons who are not U.S. persons as defined under Regulation S
"Notes"	the medium term notes under the Programme
"Pricing Supplement"	the document which sets out the terms specific to each series of the Notes
"Programme"	the global medium term note programme established by the Company by way of a dealer agreement dated 10 April 2014 (as amended and restated by an amended and restated dealer agreement dated 24 April 2015 which was further amended on 1 April 2019, 25 May 2020 and 13 April 2021) and as updated and modified from time to time
"Programme Limit"	the maximum aggregate principal amount of the Notes which may be outstanding at any one time
"Proposed Notes"	the Notes proposed to be issued
"Proposed Notes Issue"	the issue of the Proposed Notes
"Regulation S"	Regulation S under the U.S. Securities Act
"Rule 144A"	Rule 144A under the U.S. Securities Act
"Share(s)"	the ordinary share(s) with par value of HK$0.00002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange" or "SEHK"	The Stock Exchange of Hong Kong Limited

"U.S." or "United States"	the United States of America, its territories and possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"US$"	United States dollars, the lawful currency of the United States

By Order of the Board
Ma Huateng
Chairman

13 April 2021

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

Executive Directors:
Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:
Jacobus Petrus (Koos) Bekker and Charles St Leger Searle; and

Independent Non-Executive Directors:
Li Dong Sheng, Iain Ferguson Bruce, Ian Charles Stone, Yang Siu Shun and Ke Yang.

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

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

The following is a discussion of our financial condition and results of operations as at and for the years ended 31 December 2018, 2019 and 2020, and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our audited consolidated financial statements included in this Offering Circular beginning on page F-2. Our consolidated financial statements have been prepared in accordance with IFRS.

In preparing the audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, we have adopted the new accounting standard as and when it came into effect and have not restated the prior years' financial statements as permitted under the IFRSs. Therefore, the audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 may not be comparable with the financial statements for the previous years, including the audited consolidated financial statements as at and for the year ended 31 December 2018. For the impact on adoption of the new accounting standard, please refer to Note 2.2 to our audited consolidated financial statements as at and for the year ended 31 December 2019 included elsewhere in this Offering Circular. See "Risk Factors — Risks Relating to Notes Issued under the Programme — Our financial statements for the years ended 31 December 2019 and 2020 may not be comparable with the financial statements for previous years".

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

OVERVIEW

We are a leading Internet services company operating a broad range of Internet services including communication and social services, online games, digital content, online advertising, FinTech, cloud and other services for our users, advertisers, merchants and enterprise partners. We develop and deliver highly popular products and services to enhance the quality of life for users and to maximise business opportunities for enterprises and industries through digital transformation. Our expansive product offerings, advanced technologies and infrastructure services form a hub for fulfilling people's everyday needs.

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

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

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

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

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

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

In our cloud and business services, we develop and drive adoption of both cloud-based vertical industry solutions and enterprise functional applications, enabling businesses and other partners to better connect with our users, and assisting digitalisation and transformation of the economy. Our cloud services are the foundation for our smart industry solutions, helping to digitally transform and empower businesses that have conventionally operated offline. *Tencent Cloud* is a high-performance cloud service that powers our ecosystem and is offered to third-party enterprises to meet their computing and storage infrastructure as well as other technology needs. *Tencent Cloud* is layered with advanced technologies in cloud computing, data analytics, artificial intelligence, security and location-based services. We invested in IaaS technology, including our customised “Star Lake” cloud server solutions and self-developed data centre technology “T-block”, to enhance our cloud services’ performance and cost efficiency. We have been working with partners to upgrade our PaaS solutions by increasing the adoption of security and real-time communication PaaS. In the area of SaaS products, *Tencent Meeting* has become the largest standalone app for cloud conferencing in China with total users exceeding 100 million as at 31 December 2020. *WeCom*, the enterprise version of *Weixin*, has become an integral communications tool for remote workplaces, having served over 5.5 million enterprises, better connecting them internally and to over 400 million *Weixin* users as at 31 December 2020.

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

As we focus our management attention and company resources on innovation within our own core products, we also make strategic investments in high-quality management teams and best-in-class companies. We enrich our IP portfolio including games, video, music and literature via upstream investments, and broaden user reach and engagement via investments in vertical platforms. We work with businesses that can expand our offerings to meet evolving user needs, and accelerate the adoption of our enterprise services and products, such as O2O and smart retail companies, which has helped expand our payment service penetration and advertiser base. We use investments as a tool to drive innovation and achieve a better understanding of frontier technologies, such as robotics and artificial intelligence. Our investments have created value for our investee companies by offering them access to our large user base, and providing them with infrastructure, technology and capital support to bolster their growth. We support their independent growth and innovation, and strive to pursue synergies that add value for our users.

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

Sustainability is vital to the development of our strategy and operations, and we strive to integrate social responsibility into our products and services.

We commenced our business in November 1998 and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2020, our total revenues was RMB482,064 million (US$73,880 million) and our profit for the year was RMB160,125 million (US$24,540 million), an increase of 28% and 67%, respectively, over the year ended 31 December 2019. As at 31 December 2020, our cash and cash equivalents, as well as term deposits and others amounted to RMB259,507 million (US$39,771 million).

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

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

The growth of our business and revenues depends on our ability to deepen user engagement and further increase the monetisation of our vast user base. We have seen a modest growth in our *Weixin* and *WeChat* user base and maintained large numbers of *QQ* users on smart devices. As at 31 December 2020, combined MAU of *Weixin* and *WeChat* reached 1,225.0 million, an increase of 5.2%, from 1,164.8 million as at 31 December 2019, and smart device MAU of *QQ* was 594.9 million.

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

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

We generate VAS revenues from user subscriptions and item-based sales. We believe that the size of our user base also serves as the foundation for converting non-paying users into paying users. We have accumulated expertise in cross-marketing our services and products across our massive user base and have been successful in migrating a large number of our users for *Weixin* and *QQ* and other free services to fee-based services and products such as *QQ Membership*, video and music subscription services. In addition, through creating a highly engaging and interactive social experience, we also generate revenues from selling virtual items and gifts. Our diverse collection of content, including differentiated and exclusive content, on our major digital content services, including video, music, literature and others, help attract users and drive conversion into paying users. Our ability to secure high-quality and wide ranging content that match users' tastes and preferences will affect the monetisation capability and financial performance of our digital content services. These in turn help to support the growth of our VAS revenues.

We have also monetised user traffic generated from our various digital media and social services through online advertising. Through leveraging our comprehensive ecosystem, scale and data insights, we drive relevant and targeted advertising to generate higher returns for advertisers. Leveraging our data and technology, we believe we have taken substantial market share in advertising networks, where we have experienced robust growth in revenue and advertiser base.

For our FinTech business, we also strive to increase user engagement and monetisation of our vast user base. Our payment service has expanded from social and entertainment to commercial activities, and from online to offline transactions. Combined with our cloud services business, we provide infrastructure support and mobile payment tools through *Weixin Pay* and *QQ Wallet* to connect merchants and consumers. As such, our payment transaction volume has increased healthily year-on-year, driven by more daily active consumers and higher payment frequency in multiple vertials, such as retail, public services and groceries. Our large user base and high traffic also brought increasing demands for our other FinTech services, such as wealth management service through *LiCaiTong*, online lending product *WeiliDai* through our affiliate WeBank, a licensed-bank, and insurance service through WeSure, all of which have experienced rapid growth.

For our cloud and other business services, combining our advanced data analytics and artificial intelligence technologies, we have built a comprehensive portfolio of cloud products and services and customised smart industry solutions, accelerating our expansion in different industries. The expanded customer base in key verticals and robust demand for PaaS contributed to the revenue growth in the fourth quarter of 2020.

Ability to maintain our market position and enhance our brand

We have capitalised on our early-mover advantage and have established a strong market position and built a brand name widely recognised by consumers and industry participants. For example, *QQ* is a widely recognised brand in China and users seeking to join a communication and social service will likely consider *QQ* as their primary choice because of the brand recognition and market leading position. Similarly, *Weixin* has become the leading mobile communication and social service in China. In 2020, *Weixin Mini Programs* deepened penetration in more use cases, with annual transaction volume more than doubling year-on-year.

We have also maintained our leadership in the online games market in China and globally leveraging the success of our in-house and licensed titles. Our leadership spans multiple genres, including MOBA, shooter and MMORPG, as well as multiple products, including mobile and PC. The top smart phone game in China, *Honour of Kings*, was developed by our in-house games studio, *Timi Studios*, and the top PC client game in China, *League of Legends*, was developed in-house by our subsidiary, *Riot Games*. Leveraging our flagship games franchises, we strengthened our eSports global leadership with *LoL's World Championship* and *Honour of Kings' King Pro League*, which were the most watched events for PC and smart phone games, respectively in 2020. We continued to reinforce our position as the preferred Chinese publisher for local and overseas game developers, including *Activision Blizzard, Electronic Arts* and *Nexon* for PC client games, as well as *Kingsoft*, *Giant Interactive* and *Shengqu Games* for smart phone games. Internationally, we expanded our presence through overseas subsidiaries such as *Riot Games* and *Supercell* as well as partnerships and investments, and we also published some internally developed smart phone games globally. Our capability of maintaining the large user base and deepening user engagement of our communication and social platforms are the keys to our ability to compete effectively and maintain our leading brand and market position as well as attract and expand relationships with our advertising customers and, in turn, grow our revenues.

With our expanding user base, our diverse products and platforms have gained considerable influence in wider society. Our products and platforms may be subject to increased scrutiny. As a response, to maintain a healthy gameplay environment for teenagers in China, we made ongoing upgrades to the Healthy Gameplay System, which aims to help parents manage younger users' in-game play time and spending.

Ability to develop, acquire and licence content and applications

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

Ability to maintain relationships with strategic partners

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

The content costs (excluding amortisation of intangible assets), plus transaction costs and bandwidth and server custody fees (excluding depreciation of right-of-use assets), were RMB124,855 million, RMB150,307 million and RMB187,789 million (US$28,780 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

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

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

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

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

Our social networks also represent a key growth driver for our VAS business. To maintain our leading position and financial success of our social platforms, we must continue to secure high-quality, relevant and diverse digital content that are attractive to our users. For instance, *Tencent Video* has focused on its self-commissioned content strategy in providing high-quality content including animes, drama series and variety shows, attracting a steadily growing subscriber base.

Ability to innovate and compete effectively against market competitors

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

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

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

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

PRC regulations affecting the Internet and telecommunications industries

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

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

Macroeconomic conditions in the markets where we operate

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

The continuing maturation of the Chinese economy has been attended by a gradual slowdown in economic growth. Although we strive to price most of our products and services at an affordable level for average users, which also results in our earnings and cash flows being more resilient to economic cycles, macroeconomic conditions such as concerns about the COVID-19 pandemic, potential overinvestment and overleveraging in the Chinese economy, and concerns about a renewed global recession similar to the economic crisis in 2008 and trade disputes, may impact the growth of the Chinese economy and China-focused businesses like us. The advertising industry is particularly sensitive to economic downturns and a negative economic outlook could cause expenditures for Internet access and consumer discretionary spending to decrease, thereby affecting our online advertising businesses. Further, the deterioration in economic conditions in China and globally may harm the business of our customers, especially the enterprise customers, who may experience reduced business volume, and therefore decrease or delay their advertising and marketing spending or reduce their budgets or other spending across our platforms. In addition, there may be delay in the deployment of our cloud projects due to the negative impact on our enterprise customers by the deterioration in economic conditions. Further, it is unclear how Chinese economic conditions could impact PRC regulations, taxation or monetary policies, which could also affect our growth strategies, business operations and access to additional capital.

Recruitment, compensation and retention of employees

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

The number of our employees was 54,309, 62,885 and 85,858 as at 31 December 2018, 2019 and 2020, respectively. As our workforce expands, we incur additional staff costs as costs of revenues and operating expenses to our business. Our total remuneration costs were RMB42,153 million, RMB53,123 million and RMB69,638 million (US$10,672 million) for the years ended 31 December 2018, 2019 and 2020, respectively. To further our growth, we will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation and invest in programmes such as training, bonus and share-based compensation, which would further affect our remuneration costs.

BASIS OF PRESENTATION

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

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

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenues

We generate our revenues primarily from four lines of business:

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

Our revenues were RMB312,694 million, RMB377,289 million and RMB482,064 million (US$73,880 million) for the years ended 31 December 2018, 2019 and 2020, respectively. The following table sets forth our revenues by line of business for the years indicated:

	Year ended 31 December						
	2018		2019		2020		
	(Audited)		(Audited)		(Audited)		
	(RMB in millions)	*% of total revenues*	*(RMB in millions)*	*% of total revenues*	*(RMB in millions)*	*(US$ in millions)*	*% of total revenues*
Revenues							
VAS	176,646	56%	199,991	53%	264,212	40,492	55%
Online Advertising	58,079	19%	68,377	18%	82,271	12,609	17%
FinTech and Business Services[(1)]	73,138	23%	101,355	27%	128,086	19,630	27%
Others[(1)]	4,831	2%	7,566	2%	7,495	1,149	1%
Total revenues	**312,694**	**100%**	**377,289**	**100%**	**482,064**	**73,880**	**100%**

Note:

(1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards. The new "FinTech and Business Services" segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our smart retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

VAS

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

We derive online games revenues primarily from sales of in-game virtual items. We have an extensive portfolio of market leading game titles across genres on both smart phone and PC.

We also derive revenues from the massive and engaged user base across our social networks and platforms. Through providing upgrades to higher membership status and more VAS, including *QQ Super VIP* and *QQ Membership* subscription services, we generate privilege subscription revenues from membership. In addition, we also generate subscription revenues from offering access to premium digital content and other privileges on our digital content services, such as video, music and literature. Revenue generated from in-game virtual item sales also attributed to our social networks.

Revenues from VAS were RMB176,646 million, RMB199,991 million and RMB264,212 million (US$40,492 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

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

Online Advertising

Our Online Advertising services primarily comprise social and others advertising as well as media advertising. Social and others advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Mini Programs*, *Weixin Official Accounts, QQ*, mobile advertising network, live streaming and eSports events. Media advertising relates to advertising on our video, news, music and other online media properties. Significant traffic on our various properties offer ample advertising opportunities. Through leveraging our comprehensive ecosystem, scale and data insights, we drive relevant and targeted advertising to generate attractive returns for advertisers.

Revenues from Online Advertising were RMB58,079 million, RMB68,377 million and RMB82,271 million (US$12,609 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

Detailed discussion of how revenues from Online Advertising is recognised is set out in our consolidated financial statements, see "— *Critical Accounting Policies, Estimates and Judgments — Revenue Recognition — Online Advertising*".

FinTech and Business Services

FinTech and Business Services revenues mainly comprise revenues derived from provision of FinTech and cloud services. FinTech service revenues mainly include commissions from payment, wealth management, lending and other FinTech services. Cloud service revenues primarily consist of revenue from cloud services and other enterprise-facing activities such as our smart retail initiatives.

Revenues from FinTech and Business Services were RMB73,138 million, RMB101,355 million and RMB128,086 million (US$19,630 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

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

Others

Revenues from our other businesses are primarily derived from production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities. Revenues from others were RMB4,831 million, RMB7,566 million and RMB7,495 million (US$1,149 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

Cost of revenues

Our cost of revenues was RMB170,574 million, RMB209,756 million and RMB260,532 million (US$39,928 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

Cost of revenues consists of the direct costs for operating and offering our services and products, which consist primarily of transaction costs, content costs, bandwidth and server custody fees, equipment depreciation and other direct costs. Employee benefits expenses that directly relate to the provision of our services and products are also included in cost of revenues. The following table sets forth our cost of revenues by line of business for the years indicated:

	Year ended 31 December						
	2018		2019		2020		
	(Audited)		(Audited)		(Audited)		
	(RMB in millions)	*% of segment revenues*	*(RMB in millions)*	*% of segment revenues*	*(RMB in millions)*	*(US$ in millions)*	*% of segment revenues*
Cost of Revenues							
VAS	73,961	42%	94,086	47%	121,287	18,588	46%
Online Advertising	37,273	64%	34,860	51%	40,011	6,132	49%
FinTech and Business Services(1)	54,598	75%	73,831	73%	91,835	14,074	72%
Others(1)	4,742	98%	6,979	92%	7,399	1,134	99%
Total cost of revenues	**170,574**		**209,756**		**260,532**	**39,928**	

Note:

(1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards. The new "FinTech and Business Services" segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our smart retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

Interest income

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

Other gains, net

Other gains, net consist primarily of net gains/losses on disposals and deemed disposals of investee companies, net fair value gains/losses on FVPL, net fair value gains/losses on other financial instruments, impairment provision/reversal for investee companies, goodwill and other intangible assets arising from acquisitions, subsidies and tax rebates, dividend income, donations and provision/reversal on accounts receivable and other receivables.

Selling and marketing expenses

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

General and administrative expenses

General and administrative expenses primarily consist of research and development expenses, related employee benefits expense, office rental/depreciation of right-of-use assets, travel and entertainment expenses, consulting fees, office maintenance and other general office expenses.

Finance costs, net

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

Income tax expense

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

(i) Cayman Islands and British Virgin Islands CIT

We were not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2018, 2019 and 2020.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2018, 2019 and 2020.

(iii) PRC CIT

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of our entities established in the Mainland of China for the years ended 31 December 2018, 2019 and 2020. The general PRC CIT rate is 25% in 2018, 2019 and 2020.

Certain subsidiaries in the Mainland of China were approved as High and New Technology Enterprise, and accordingly, they were subject to a preferential CIT rate of 15% for the years ended 31 December 2018, 2019 and 2020. Moreover, according to announcement and circular issued by relevant government authorities, certain subsidiaries that qualified as national key software enterprises were subject to a preferential CIT rate of 10%.

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

(iv) CIT in other jurisdictions

Income tax on profit arising from other jurisdictions, including the United States, Europe, East Asia and South America, had been calculated on the estimated assessable profit at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35% for the years ended 31 December 2018, 2019 and 2020.

(v) Withholding tax

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

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

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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

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

Revenue recognition

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

VAS

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

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

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

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

We also open our online platforms to third-party game/application developers under certain cooperation agreements, of which we pay to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of our online platforms for the virtual items purchased. We recognise the related revenue on a gross or net basis depending on whether we are acting as a principal or an agent in the transaction. We adopt different revenue recognition methods based on our specific responsibilities/obligations in different VAS offerings.

Online Advertising

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

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

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

FinTech and Business Services

FinTech and Business Services revenues mainly comprise revenues derived from provision of FinTech and cloud services.

FinTech service revenues mainly include commissions from payment, wealth management and other FinTech services, which is generally determined as a percentage based on the value of transaction amount or retention amount. Revenue related to such commissions is recognised upon a time when we satisfy our performance obligations by rendering services.

Cloud services are mainly charged on either a subscription or consumption basis. For cloud service contracts billed based on a fixed amount for a specified service period, revenue is recognised over the subscribed period when the services are delivered to customers. For cloud service provided on a consumption basis, revenue is recognised based on the customer utilisation of the resources. When a cloud-based service includes multiple performance obligations, we allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

Other revenues

Our other revenues are primarily derived from production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities. We recognise other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

Share-based compensation benefits

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

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

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

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

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

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

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

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

Cash-settled share-based payment transactions are those arrangements which the terms provide us to settle the transaction in cash. Upon the satisfaction of the vesting conditions, we shall account for that transaction as a cash-settled share-based payment transaction if, and to the extent that, we have incurred a liability to settle in cash.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at the end of the reporting period. We adopt valuation technique to assess the fair value of such equity instruments granted under the share-based compensation plans as appropriate.

Income taxes

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

Recoverability of non-financial assets

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

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

Fair value measurement of FVPL, FVOCI and other financial liabilities

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

RESULTS OF OPERATIONS

Year Ended 31 December 2020 Compared to Year Ended 31 December 2019

Revenues. Revenues increased by RMB104,775 million, or 28%, from RMB377,289 million for the year ended 31 December 2019 to RMB482,064 million (US$73,880 million) for the year ended 31 December 2020.

The following table sets forth our revenues by line of business for the years ended 31 December 2019 and 2020:

	Year ended 31 December				
	2019		2020		
	(Audited)		(Audited)		
	Amount	% of total revenues	Amount	Amount	% of total revenues
	(RMB in millions)		*(RMB in millions)*	*(US$ in millions)*	
VAS	199,991	53%	264,212	40,492	55%
Online Advertising	68,377	18%	82,271	12,609	17%
FinTech and Business Services	101,355	27%	128,086	19,630	27%
Others	7,566	2%	7,495	1,149	1%
Total revenues	**377,289**	**100%**	**482,064**	**73,880**	**100%**

Revenues from VAS business increased by RMB64,221 million, or 32%, from RMB199,991 million for the year ended 31 December 2019 to RMB264,212 million (US$40,492 million) for the year ended 31 December 2020. Online game revenues grew by 36% to RMB156,101 million (US$23,923 million) for the year ended 31 December 2020. The increase was primarily driven by revenue growth from our smart phone games in both domestic and overseas markets, particularly from titles such as *Peacekeeper Elite*, *Honour of King*s and *PUBG Mobile*, as well as the full year effect of *Supercell* consolidation, while our PC client games revenues decreased slightly. Total smart phone games revenues (including smart phone games revenues attributable to our social networks business) were RMB146,608 million (US$22,469 million) and PC client games revenues were RMB44,582 million (US$6,832 million) for the year ended 31 December 2020. Social networks revenues increased by 27% to RMB108,111 million (US$16,569 million) for the year ended 31 December 2020. The increase was primarily due to the consolidation of HUYA's live broadcast services, revenue growth from our music and video subscription services, as well as growth from our in-game virtual item sales.

Revenues from Online Advertising increased by RMB13,894 million, or 20%, from RMB68,377 million for the year ended 31 December 2019 to RMB82,271 million (US$12,609 million) for the year ended 31 December 2020, benefitting from our platform integration and upgraded algorithms, along with rising demand from advertiser categories such as education, Internet services and eCommerce platforms. Social and others advertising revenues grew by 29% to RMB67,979 million (US$10,418 million). The increase was primarily driven by higher advertising revenues from Weixin (primarily *Weixin Moments*) as a result of its increased inventories, as well as revenue contributions from our mobile advertising network due to our video format advertisements. Media advertising revenues decreased by 8% to RMB14,292 million (US$2,191 million) for the year ended 31 December 2020. The decrease mainly reflected lower advertising revenues from Tencent Video amid the challenging macro environment and delays to content productions and launches, partly offset by advertising revenue growth from our music streaming apps.

Revenues from FinTech and Business Services increased by RMB26,731 million, or 26%, from RMB101,355 million for the year ended 31 December 2019 to RMB128,086 million (US$19,630 million) for the year ended 31 December 2020. The increase primarily reflected higher revenues from commercial payment, wealth management and Cloud Services, driven by our expanded user base and business scale.

Cost of revenues. Cost of revenues increased by RMB50,776 million, or 24%, from RMB209,756 million for the year ended 31 December 2019 to RMB260,532 million (US$39,928 million) for the year ended 31 December 2020. The increase was mainly due to greater channel and distribution costs, server and bandwidth costs, as well as transaction costs of FinTech services. As a percentage of revenues, cost of revenues decreased to 54% for the year ended 31 December 2020 from 56% for the year ended 31 December 2019.

The following table sets forth our cost of revenues by line of business for the years ended 31 December 2019 and 2020:

	Year ended 31 December				
	2019		**2020**		
	(Audited)		**(Audited)**		
	Amount	**% of segment revenues**	**Amount**	**Amount**	**% of segment revenues**
	(RMB in millions)		*(RMB in millions)*	*(US$ in millions)*	
VAS	94,086	47%	121,287	18,588	46%
Online Advertising	34,860	51%	40,011	6,132	49%
FinTech and Business Services	73,831	73%	91,835	14,074	72%
Others	6,979	92%	7,399	1,134	99%
Total cost of revenues	**209,756**		**260,532**	**39,928**	

Cost of revenues for VAS increased by RMB27,201 million, or 29%, from RMB94,086 million for the year ended 31 December 2019 to RMB121,287 million (US$18,588 million) for the year ended 31 December 2020. The increase was mainly driven by greater content costs for live broadcast and video subscription services, as well as costs for smart phone games, including those associated with the consolidations of Supercell and HUYA.

Cost of revenues for Online Advertising increased by RMB5,151 million, or 15%, from RMB34,860 million for the year ended 31 December 2019 to RMB40,011 million (US$6,132 million) for the year ended 31 December 2020. The increase was mainly due to greater traffic acquisition, server and bandwidth costs, partly offset by lower content costs associated with variety shows and sports events.

Cost of revenues for FinTech and Business Services increased by RMB18,004 million, or 24%, from RMB73,831 million for the year ended 31 December 2019 to RMB91,835 million (US$14,074 million) for the year ended 31 December 2020. The increase primarily reflected greater transaction costs resulting from TPV growth, as well as higher server and bandwidth costs due to expansion of our Cloud Services business.

Gross profit. Gross profit increased by RMB53,999 million, or 32%, from RMB167,533 million for the year ended 31 December 2019 to RMB221,532 million (US$33,952 million) for the year ended 31 December 2020. Our gross margin was 46% for the year ended 31 December 2020 as compared to 44% for the year ended 31 December 2019.

Interest income. Interest income increased by RMB643 million, or 10%, from RMB6,314 million for the year ended 31 December 2019 to RMB6,957 million (US$1,066 million) for the year ended 31 December 2020.

Other gains, net. We recorded net other gains of RMB57,131 million (US$8,756 million) for the year ended 31 December 2020, which were primarily non-IFRS adjustment items including net fair value gains arising from increased valuations for certain investee companies in verticals such as social media, online games, electric vehicles and eCommerce, as well as net gains on deemed disposals arising from the capital activities of certain investee companies in the eCommerce and online games verticals, partly offset by impairment provisions reflecting revised valuations of certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by RMB12,362 million, or 58%, from RMB21,396 million for the year ended 31 December 2019 to RMB33,758 million (US$5,174 million) for the year ended 31 December 2020. The increase primarily reflected greater marketing spending for online games and the impact of recent consolidations, as well as marketing to support long-term strategic initiatives including short form video, cloud-based healthcare solutions, online education and remote work. As a percentage of revenues, selling and marketing expenses increased to 7% for the year ended 31 December 2020 from 6% for the year ended 31 December 2019.

General and administrative expenses. General and administrative expenses increased by RMB14,179 million, or 27%, from RMB53,446 million for the year ended 31 December 2019 to RMB67,625 million (US$10,364 million) for the year ended 31 December 2020. The increase was primarily driven by greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses were 14% for the year ended 31 December 2020, broadly stable year-on-year.

Operating profit. Operating profit increased by RMB65,543 million, or 55%, from RMB118,694 million for the year ended 31 December 2019 to RMB184,237 million (US$28,236 million) for the year ended 31 December 2020.

Finance costs, net. Net finance costs increased by RMB274 million, or 4%, from RMB7,613 million for the year ended 31 December 2019 to RMB7,887 million (US$1,209 million) for the year ended 31 December 2020. The increase primarily reflected foreign exchange losses recognised this year compared to gains for previous year, partially offset by lower interest expenses resulting from reduced average cost of funds.

Share of profit/(loss) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB3,672 million (US$562 million) for the year ended 31 December 2020, compared to share of losses of RMB1,681 million for the year ended 31 December 2019. The change was substantially due to non-IFRS adjustment items of certain associates and improved performance of certain associates in verticals such as eCommerce.

Profit before income tax. Profit before income tax increased by RMB70,622 million, or 65%, from RMB109,400 million for the year ended 31 December 2019 to RMB180,022 million (US$27,589 million) for the year ended 31 December 2020.

Income tax expense. Income tax expense was RMB13,512 million and RMB19,897 million (US$3,049 million) for the year ended 31 December 2019 and 2020, respectively. The increase was mainly driven by higher taxable income.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB64,237 million, or 67%, from RMB95,888 million for the year ended 31 December 2019 to RMB160,125 million (US$24,540 million) for the year ended 31 December 2020. Our profit margin increased from 25% for the year ended 31 December 2019 to 33% for the year ended 31 December 2020.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 71% to RMB159,847 million (US$24,498 million) for the year ended 31 December 2020 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company[12] increased by 30% year-on-year to RMB122,742 million (US$18,811 million) for the year ended 31 December 2020.

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

Revenues. Revenues increased by 21% to RMB377,289 million for the year ended 31 December 2019 on a year-on-year basis.

[12] Non-IFRS profit attributable to equity holders of the Company represents the profit attributable to equity holders of the Company after adjusting for share-based compensation, net (gains)/losses from investee companies, amortisation of intangible assets, impairment provisions/(reversals) and the related income tax effects.

The following table sets forth our revenues by line of business for the years ended 31 December 2018 and 2019:

	Year ended 31 December			
	2018		2019	
	(Audited)		(Audited)	
	Amount (Restated)	% of total revenues (Restated)	Amount	% of total revenues
	(RMB in millions)		*(RMB in millions)*	
VAS	176,646	56%	199,991	53%
Online Advertising	58,079	19%	68,377	18%
FinTech and Business Services[(1)]	73,138	23%	101,355	27%
Others[(1)]	4,831	2%	7,566	2%
Total revenues	**312,694**	**100%**	**377,289**	**100%**

Note:

(1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards. The new "FinTech and Business Services" segment primarily consists of the financials of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our smart retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

Revenues from VAS business increased by 13% year-on-year to RMB199,991 million for the year ended 31 December 2019. Online games revenues grew by 10% to RMB114,710 million for the year ended 31 December 2019. The increase was primarily due to revenue contributions from domestic smart phone games including *Honour of Kings* and *Peacekeeper Elite*, as well as increased contributions from our overseas titles such as *PUBG Mobile* and *Supercell* titles, partly offset by the revenue decline from PC client games such as *Dungeon and Fighter*. Social networks revenues increased by 17% to RMB85,281 million for the year ended 31 December 2019. The increase mainly reflected revenue growth from digital content services such as live broadcast services and video streaming subscriptions.

Revenues from Online Advertising business increased by 18% year-on-year to RMB68,377 million for the year ended 31 December 2019. Social and others advertising revenues grew by 33% to RMB52,897 million for the year ended 31 December 2019. The increase mainly reflected higher advertising revenues derived from *Weixin* (primarily *Weixin Moments* and *Weixin Mini Programs*) as a result of its increased inventories and impressions, as well as contributions from our mobile advertising network due to increased traffic and video inventories. Media advertising revenues decreased by 15% to RMB15,480 million for the year ended 31 December 2019. The decrease was primarily due to lower advertising revenues from our digital content services including *Tencent Video* and *Tencent News* resulting from unpredictability in broadcast schedules and the challenging macro-environment, as well as the absence of the *FIFA World Cup* in year 2019.

Revenues from FinTech and Business Services increased by 39% year-on-year to RMB101,355 million for the year ended 31 December 2019. The increase was primarily driven by greater revenues from commercial payment due to increased daily active consumers and number of transactions per user. Greater revenues from cloud services also contributed to the annual growth.

Cost of revenues. Cost of revenues increased by 23% year-on-year to RMB209,756 million for the year ended 31 December 2019. The increase primarily reflected greater content costs, costs of FinTech services and channel costs. As a percentage of revenues, cost of revenues increased to 56% for the year ended 31 December 2019 from 55% for the year ended 31 December 2018.

The following table sets forth our cost of revenues by line of business for the years ended 31 December 2018 and 2019:

	Year ended 31 December			
	2018		2019	
	(Audited)		(Audited)	
	Amount (Restated)	% of segment revenues (Restated)	Amount	% of segment revenues
	(RMB in millions)		*(RMB in millions)*	
VAS	73,961	42%	94,086	47%
Online Advertising	37,273	64%	34,860	51%
FinTech and Business Services[1]	54,598	75%	73,831	73%
Others[1]	4,742	98%	6,979	92%
Total cost of revenues	**170,574**		**209,756**	

Note:

(1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards. The new "FinTech and Business Services" segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our smart retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

Cost of revenues for VAS increased by 27% year-on-year to RMB94,086 million for the year ended 31 December 2019. The increase was mainly due to greater content costs for services and products such as live broadcast services, online games and video streaming subscriptions, as well as channel costs for smart phone games.

Cost of revenues for Online Advertising decreased by 6% year-on-year to RMB34,860 million for the year ended 31 December 2019. The decrease was mainly driven by lower content costs for our advertising-funded long form video service resulting from fewer content releases and improved cost efficiency, partly offset by other cost items.

Cost of revenues for FinTech and Business Services increased by 35% year-on-year to RMB73,831 million for the year ended 31 December 2019. The increase primarily reflected greater costs of payment-related and cloud services due to the enhanced scale of our payment and cloud activities.

Gross profit. Gross profit increased by RMB25,413 million, or 18%, from RMB142,120 million for the year ended 31 December 2018 to RMB167,533 million for the year ended 31 December 2019. Our gross margin was 44% for the year ended 31 December 2019 as compared to 45% for the year ended 31 December 2018.

Interest income. Interest income increased by RMB1,745 million, or 38%, from RMB4,569 million for the year ended 31 December 2018 to RMB6,314 million for the year ended 31 December 2019.

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

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

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

Operating profit. Operating profit increased by RMB21,046 million, or 22%, from RMB97,648 million for the year ended 31 December 2018 to RMB118,694 million for the year ended 31 December 2019.

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

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

Profit before income tax. Profit before income tax increased by RMB14,934 million, or 16%, from RMB94,466 million for the year ended 31 December 2018 to RMB109,400 million for the year ended 31 December 2019.

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

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB15,904 million, or 20%, from RMB79,984 million for the year ended 31 December 2018 to RMB95,888 million for the year ended 31 December 2019. Our profit margin decreased from 26% for the year ended 31 December 2018 to 25% for the year ended 31 December 2019.

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

QUARTERLY RESULTS OF OPERATIONS

The following table presents our unaudited quarterly results of operations for the most recent eight quarters. You should read the table in conjunction with the consolidated financial information contained elsewhere in this Offering Circular. Results of operations for any quarter are not necessarily indicative of results for any future quarters or full year.

	Three months ended (Unaudited)							
	31 March 2019	**30 June 2019**	**30 September 2019**	**31 December 2019**	**31 March 2020**	**30 June 2020**	**30 September 2020**	**31 December 2020**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*
Revenues:								
VAS	48,974	48,080	50,629	52,308	62,429	65,002	69,802	66,979
Online Advertising	13,377	16,409	18,366	20,225	17,713	18,552	21,351	24,655
FinTech and Business Services	21,789	22,888	26,758	29,920	26,475	29,862	33,255	38,494
Others	1,325	1,444	1,483	3,314	1,448	1,467	1,039	3,541
Total revenues	**85,465**	**88,821**	**97,236**	**105,767**	**108,065**	**114,883**	**125,447**	**133,669**
Cost of revenues	(45,645)	(49,695)	(54,757)	(59,659)	(55,271)	(61,673)	(68,800)	(74,788)
Gross profit	**39,820**	**39,126**	**42,479**	**46,108**	**52,794**	**53,210**	**56,647**	**58,881**
Interest income	1,408	1,652	1,674	1,580	1,636	1,749	1,864	1,708
Other gains, net	11,089	4,038	932	3,630	4,037	8,607	11,551	32,936
Selling and marketing expenses	(4,244)	(4,718)	(5,722)	(6,712)	(7,049)	(7,756)	(8,920)	(10,033)
General and administrative expenses	(11,331)	(12,577)	(13,536)	(16,002)	(14,158)	(16,499)	(17,189)	(19,779)
Operating profit	**36,742**	**27,521**	**25,827**	**28,604**	**37,260**	**39,311**	**43,953**	**63,713**
Finance costs, net	(1,117)	(1,982)	(1,747)	(2,767)	(1,684)	(2,005)	(1,945)	(2,253)
Share of (loss)/profit of associates and joint ventures	(2,957)	2,370	234	(1,328)	(281)	(295)	2,630	1,618
Profit before income tax	**32,668**	**27,909**	**24,314**	**24,509**	**35,295**	**37,011**	**44,638**	**63,078**
Income tax expense	(4,812)	(3,225)	(3,338)	(2,137)	(5,892)	(4,557)	(5,739)	(3,709)
Profit for the period	**27,856**	**24,684**	**20,976**	**22,372**	**29,403**	**32,454**	**38,899**	**59,369**

We experienced growth in our quarterly revenues for the eight quarters in the period from 1 January 2019 to 31 December 2020.

LIQUIDITY AND CAPITAL RESOURCES

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

- our working capital requirements, such as transaction costs, content costs (excluding amortisation of intangible assets), employee benefits expenses, bandwidth and server custody fees (excluding depreciation of right-of-use assets), selling and marketing expenses, as well as research and development expenses; and

- costs associated with the expansion of our business.

We had cash and cash equivalents of RMB97,814 million, RMB132,991 million and RMB152,798 million (US$23,417 million) as at 31 December 2018, 2019 and 2020, respectively. Our term deposits and others included in current and non-current assets were RMB69,305 million, RMB72,270 million and RMB106,709 million (US$16,354 million) as at 31 December 2018, 2019 and 2020, respectively.

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

Our accounts receivable were RMB28,427 million, RMB35,839 million and RMB44,981 million (US$6,894 million) as at 31 December 2018, 2019 and 2020, respectively which mainly represented amounts due from online advertising customers and agencies, content production related customers, FinTech and cloud customers, and third-party platform providers. Some online advertising customers and agencies are usually granted with a credit period within 90 days immediately following the month-end in which the relevant obligations under the relevant contracted advertising orders are delivered. Third-party platform providers usually settle the amounts due by them within 60 days. Other customers, mainly including content production related customers and FinTech and cloud customers, are usually granted with a credit period within 90 days.

Our accounts payable were RMB73,735 million, RMB80,690 million and RMB94,030 million (US$14,411 million) as at 31 December 2018, 2019 and 2020, respectively. We normally settle the amount due to us according to the terms of our contracts.

Cash Flows

The following table sets forth our cash flows information for the years ended 31 December 2018, 2019 and 2020:

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

Note:

(1) Includes, among others, payment for capital expenditures as well as video and music content, game licences and other content. Payment for capital expenditure represents the amount paid for purchase of property, plant and equipment, construction in progress and investment properties, payments for land use rights and intangible assets (excluding video and music content, game licences and other content), which amounted to RMB23,092 million, RMB28,331 million and RMB40,961 million (US$6,278 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

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

(3) Since the first quarter of 2019, we have reclassified interest paid in cash flow presentation from operating activities to financing activities, which better reflects the nature of business. The comparative figures in 2018 have been reclassified to conform with the new presentation.

Cash Flows from Operating Activities

In 2020, we had a net cash inflow from operating activities in the amount of RMB194,119 million (US$29,750 million). This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB187,018 million and changes in working capital in the amount of RMB27,423 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB20,322 million. The changes in working capital primarily consisted of (i) an increase in deferred revenue of RMB18,184 million, (ii) an increase in accounts payable of RMB13,033 million, (iii) an increase in other payables and accruals of RMB2,828 million, (iv) an increase in other tax liabilities of RMB886 million, and (v) a decrease in prepayments, deposits and other receivables of RMB117 million, partially offset by (i) an increase in accounts receivable of RMB7,530 million, and (ii) an increase in inventories of RMB95 million.

In 2019, we had a net cash inflow from operating activities in the amount of RMB148,590 million. This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB150,488 million and changes in working capital in the amount of RMB15,330 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB17,228 million. The changes in working capital primarily consisted of (i) an increase in deferred revenue of RMB12,054 million, (ii) an increase in other payables and accruals of RMB7,022 million, (iii) an increase in accounts payable of RMB6,445 million, and (iv) an increase in other tax liabilities of RMB193 million, partially offset by (i) an increase in accounts receivable of RMB6,037 million, (ii) an increase in prepayments, deposits and other receivables of RMB3,953 million, and (iii) an increase in inventories of RMB394 million.

In 2018, we had a net cash inflow from operating activities in the amount of RMB110,936 million. This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB120,966 million and changes in working capital in the amount of RMB4,491 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB14,521 million. The changes in working capital primarily consisted of an increase in accounts payable of RMB22,955 million, partially offset by (i) an increase in accounts receivable of RMB10,302 million, (ii) an increase in prepayments, deposits and other receivables of RMB4,050 million, (iii) a decrease in other payables and accruals of RMB3,559 million, (iv) a decrease in deferred revenue of RMB505 million, (v) an increase in inventories of RMB29 million, and (vi) a decrease in other tax liabilities of RMB19 million.

Cash Flows from Investing Activities

Net cash used in investing activities for the year ended 31 December 2020 was RMB181,955 million (US$27,886 million), primarily reflecting the payments for acquisition of financial assets at fair value through profit or loss in the amount of RMB60,066 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB34,070 million, payments for acquisition of investments in associates in the amount of RMB30,533 million, purchase of or prepayment for intangible assets in the amount of RMB27,182 million, net placement flow of term deposits with initial terms of over three months in the amount of RMB26,992 million, payments for business combinations, net of cash acquired in the amount of RMB15,097 million and payments for acquisition of financial assets at fair value through other comprehensive income in the amount of RMB12,719 million, partially offset by proceeds from disposals of financial assets at fair value through profit or loss in the amount of RMB13,168 million and proceeds from disposals of financial assets at fair value through other comprehensive income in the amount of RMB7,648 million.

Net cash used in investing activities for the year ended 31 December 2019 was RMB116,170 million, primarily reflecting the payments for acquisition of financial assets at fair value through profit or loss in the amount of RMB39,827 million, purchase of or prepayment for intangible assets in the amount of RMB29,866 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB22,766 million, payments for acquisition of investments in associates in the amount of RMB14,904 million, payments for settlement of other financial instruments in the amount of RMB11,391 million, and payments for acquisition of financial assets at fair value through other comprehensive income in the amount of RMB9,425 million, partially offset by proceeds from disposals of financial assets at fair value through profit or loss of RMB15,744 million and interest received of RMB6,230 million.

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

Cash Flows from Financing Activities

Net cash generated from financing activities for the year ended 31 December 2020 was RMB13,647 million (US$2,091 million), primarily reflecting net proceeds from issuance of notes payable of RMB47,948 million proceeds from long-term borrowings of RMB26,323 million and proceeds from short-term borrowings of RMB5,090 million, partially offset by repayments of long-term borrowings of RMB15,899 million, dividends paid to our shareholders and the non-controlling interests of RMB11,418 million, repayments of notes payable of RMB10,460 million, payments for acquisition of non-controlling interests in non wholly-owned subsidiaries of RMB9,263 million, repayments of short-term borrowings of RMB8,512 million, and interest paid of RMB7,076 million.

Net cash generated from financing activities for the year ended 31 December 2019 was RMB1,672 million, primarily reflecting proceeds from long-term borrowings of RMB55,075 million, net proceeds from issuance of notes payable of RMB40,202 million and proceeds from short-term borrowings of RMB18,375 million, partially offset by repayments of long-term borrowings of RMB55,168 million, repayments of short-term borrowings of RMB22,058 million, repayments of notes payable of RMB13,465 million and dividends paid to our shareholders and the non-controlling interests of RMB9,453 million, and interest paid of RMB7,047 million.

Net cash generated from financing activities for the year ended 31 December 2018 was RMB30,887 million, primarily reflecting net proceeds from issuance of notes payable of RMB32,547 million, proceeds from short-term borrowings of RMB26,463 million, proceeds from issuance of additional equity of non wholly-owned subsidiaries of RMB7,238 million and proceeds from long-term borrowings of RMB7,237 million, partially offset by repayments of short-term borrowings of RMB23,545 million, dividends paid to our shareholders and the non-controlling interests of RMB7,396 million and repayments of notes payable of RMB4,666 million and interest paid of RMB4,493 million.

Capital Expenditure

Our capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets (excluding video and music content, game licences and other content), were RMB23,941 million, RMB32,369 million and RMB33,960 million (US$5,205 million) for the years ended 31 December 2018, 2019 and 2020, respectively.

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

INDEBTEDNESS

Our total borrowings amounted to RMB114,271 million, RMB126,952 million and RMB126,387 million (US$19,370 million) as at 31 December 2018, 2019 and 2020, respectively.

Our total notes payable amounted to RMB65,018 million, RMB93,861 million and RMB122,057 million (US$18,706 million) as at 31 December 2018, 2019 and 2020, respectively. On 11 February 2015, we completed the issue of the 2025 Notes. The 2025 Notes bear an interest of 3.800% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes will mature on 11 February 2025. See "*Description of Other Material Indebtedness — 2025 Notes*". On 15 July 2015, we completed the issue of the 2035 Notes. The 2035 Notes bear an interest of 4.700% per annum from 15 July 2015, payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes will mature on 15 July 2035. See "*Description of Other Material Indebtedness — 2035 Notes*". On 19 January 2018, we completed the issue of the 2023 Notes. The 2023 Notes bear an interest of 2.985% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2023 Notes will mature on 19 January 2023. See "*Description of Other Material Indebtedness — 2023 Notes*". On 19 January 2018, we completed the issue of the 2023 Floating Rate Notes. The 2023 Floating Rate Notes bear an interest of 3-month USD LIBOR + 0.605% per annum from 19 January 2018, payable quarterly in arrears on 19 January, 19 April, 19 July and 19 October of each year. The 2023 Floating Rate Notes will mature on 19 January 2023. See "*Description of Other Material Indebtedness — 2023 Floating Rate Notes*". On 19 January 2018, we completed the issue of the 2028 Notes. The 2028 Notes bear an interest of 3.595% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2028 Notes will mature on 19 January 2028. See "*Description of Other Material Indebtedness — 2028 Notes*". On 19 January 2018, we completed the issue of the 2038 Notes. The 2038 Notes bear an interest of 3.925% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2038 Notes will mature on 19 January 2038. See "*Description of Other Material Indebtedness — 2038 Notes*". On 11 April 2019, we completed the issue of the 2024 Notes. The 2024 Notes bear an interest of 3.280% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2024 Notes will mature on 11 April 2024. See "*Description of Other Material Indebtedness — 2024 Notes*". On 11 April 2019, we completed the issue of the 2024 Floating Rate Notes. The 2024 Floating Rate Notes bear an interest of 3-month USD LIBOR + 0.910% per annum from 11 April 2019, payable quarterly in arrears on 11 January, 11 April, 11 July and 11 October of each year. The 2024 Floating Rate Notes will mature on 11 April 2024. See "*Description of Other Material Indebtedness — 2024 Floating Rate Notes*". On 11 April 2019, we completed the issue of the 2026 Notes. The 2026 Notes bear an interest of 3.575% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2026 Notes will mature on 11 April 2026. See "*Description of Other Material Indebtedness — 2026 Notes*". On 11 April 2019, we completed the issue of the 2029 Notes. The 2029 Notes bear an interest of 3.975% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2029 Notes will mature on 11 April 2029. See "*Description of Other Material Indebtedness — 2029 Notes*". On 11 April 2019, we completed the issue of the 2049 Notes. The 2049 Notes bear an interest of 4.525% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2049 Notes will mature on 11 April 2049. See "*Description of Other Material Indebtedness — 2049 Notes*". On 3 June 2020, we completed the issue of the January 2026 Notes. The January 2026 Notes bear an interest of 1.810% per annum from 3 June 2020, payable semi-annually in arrears on 26 January and 26 July of each year. The January 2026 Notes will mature on 26 January 2026. See "*Description of Other Material Indebtedness — January 2026 Notes*". On 3 June 2020, we completed the issue of the 2030 Notes. The 2030 Notes bear an interest of 2.390% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2030 Notes will mature on 3 June 2030. See "*Description of Other Material Indebtedness — 2030 Notes*". On 3 June 2020, we completed the issue of the 2050 Notes. The 2050 Notes bear an interest of 3.240% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2050 Notes will mature on 3 June 2050. See "*Description of Other Material Indebtedness — 2050 Notes*". On 3 June 2020, we completed the issue of the 2060 Notes. The 2060 Notes bear an interest of 3.290% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2060 Notes will mature on 3 June 2060. See "*Description of Other Material Indebtedness — 2060 Notes*". On 3 September 2020, TME completed the issue of the TME 2025 Notes. The TME 2025 Notes bear an interest of 1.375% per annum from 3 September 2020, payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2025 Notes will mature on 3 September 2025. See "*Description of Other Material Indebtedness — TME 2025 Notes*". On 3 September 2020, TME completed the issue of the TME 2030 Notes. The TME 2030 Notes bear an interest of 2.000% per annum from 3 September 2020, payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2030 Notes will mature on 3 September 2030. See "*Description of Other Material Indebtedness — TME 2030 Notes*".

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

	As at 31 December			
	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Current:				
USD bank borrowings, unsecured[(1)]	16,403	6,627	9,135	1,400
RMB bank borrowings				
– unsecured[(1)]	628	902	4,079	625
– secured[(1)]	–	201	100	16
HKD bank borrowings				
– unsecured[(1)]	3,368	9,298	–	–
– secured[(1)]	–	–	144	22
Current portion of long-term USD bank borrowings, unsecured[(2)]	5,628	140	783	120
Current portion of long-term EUR bank borrowings, secured[(2)]	–	–	1	–
Current portion of long-term RMB bank borrowings				
– unsecured[(2)]	332	4,633	–	–
– secured[(2)]	475	–	–	–
Current portion of long-term HKD bank borrowings, unsecured[(2)]	–	894	–	–
	26,834	22,695	14,242	2,183

	As at 31 December			
	2018	2019	2020	
	(Audited)	**(Audited)**	**(Audited)**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Non-Current:				
Non-current portion of long-term USD bank borrowings, unsecured[2]	70,938	88,354	110,629	16,955
Non-current portion of long-term EUR bank borrowings				
– unsecured[2]	–	1,172	1,204	184
– secured[2]	–	–	12	2
Non-current portion of long-term RMB bank borrowings, unsecured[2]	11,189	10,196	300	46
Non-current portion of long-term HKD bank borrowings, unsecured[2]	5,310	4,535	–	–
	87,437	104,257	112,145	17,187
Total borrowings	**114,271**	**126,952**	**126,387**	**19,370**
Current:				
Notes payable[3]	13,720	10,534	–	–
Non-current:				
Notes payable[3]	51,298	83,327	122,057	18,706
Total notes payable	**65,018**	**93,861**	**122,057**	**18,706**
Total	**179,289**	**220,813**	**248,444**	**38,076**

Note:

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

	As at 31 December 2018		As at 31 December 2019		As at 31 December 2020	
	Amount *(in millions)*	**Interest rate** *(per annum)*	**Amount** *(in millions)*	**Interest rate** *(per annum)*	**Amount** *(in millions)*	**Interest rate** *(per annum)*
USD bank borrowings.	USD2,390	LIBOR + 0.50% ~ 0.55%	USD950	LIBOR + 0.50%	USD1,400	LIBOR + 0.45% ~ 0.50%
HKD bank borrowings	HKD3,850	HIBOR + 0.50% ~ 0.55%	HKD10,395	HIBOR + 0.45% ~ 0.50%	HKD171	HIBOR + 0.90% ~ 3.90%
RMB bank borrowings	RMB628	5.22% ~ 5.44%	RMB1,103	3.60% ~ 5.22%	RMB4,179	3.55% ~ 5.22%

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

	As at 31 December 2018		As at 31 December 2019		As at 31 December 2020	
	Amount *(in millions)*	**Interest rate** *(per annum)*	**Amount** *(in millions)*	**Interest rate** *(per annum)*	**Amount** *(in millions)*	**Interest rate** *(per annum)*
USD bank borrowings	USD11,156	LIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875%	USD12,685	LIBOR + 0.70% ~ 1.27%	USD17,075	LIBOR + 0.70% ~ 1.27%
EUR bank borrowings	–	–	EUR150	0.52%	EUR151	0.52% ~ 1.00%
HKD bank borrowings	HKD6,070	HIBOR + 0.70% ~ 0.85%	HKD6,070	HIBOR + 0.70% ~ 0.80%	–	–
RMB bank borrowings	RMB11,996	4.18% ~ 9.00%	RMB14,829	4.18% ~ 5.70%	RMB300	5.70%

(3) On 11 February 2015, we completed the issue of the 2025 Notes in an aggregate principal amount of US$900 million that will mature on 11 February 2025. The 2025 Notes bear an interest of 3.800% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes were issued at 99.605% of the aggregate principal amount. On 15 July 2015, we completed the issue of the 2035 Notes in an aggregate principal amount of US$100 million that will mature on 15 July 2035. The 2035 Notes bear an interest of 4.700% per annum from 15 July 2015, payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes were issued at 99.359% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2023 Notes in an aggregate amount of US$1,000 million that will mature on 19 January 2023. The 2023 Notes bear an interest of 2.985% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2023 Notes were issued at 99.986% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2023 Floating Rate Notes in an aggregate amount of US$500 million that will mature on 19 January 2023. The 2023

Floating Rate Notes bear an interest of 3-month USD LIBOR + 0.605% per annum from 19 January 2018, payable quarterly in arrears on 19 January, 19 April, 19 July and 19 October of each year. The 2023 Floating Rate Notes were issued at 100.0% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2028 Notes in an aggregate amount of US$2,500 million that will mature on 19 January 2028. The 2028 Notes bear an interest of 3.595% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2028 Notes were issued at 99.975% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2038 Notes in an aggregate amount of US$1,000 million that will mature on 19 January 2038. The 2038 Notes bear an interest of 3.925% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2038 Notes were issued at 99.959% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2024 Notes in an aggregate amount of US$1,250 million that will mature on 11 April 2024. The 2024 Notes bear an interest of 3.280% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2024 Notes were issued at 99.991% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2024 Floating Rate Notes in an aggregate amount of US$750 million that will mature on 11 April 2024. The 2024 Floating Rate Notes bear an interest of 3-month USD LIBOR + 0.910% per annum from 11 April 2019, payable quarterly in arrears on 11 January, 11 April, 11 July and 11 October of each year. The 2024 Floating Rate Notes were issued at 100.0% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2026 Notes in an aggregate amount of US$500 million that will mature on 11 April 2026. The 2026 Notes bear an interest of 3.575% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2026 Notes were issued at 99.994% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2029 Notes in an aggregate amount of US$3,000 million that will mature on 11 April 2029. The 2029 Notes bear an interest of 3.975% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2029 Notes were issued at 99.967% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2049 Notes in an aggregate amount of US$500 million that will mature on 11 April 2049. The 2049 Notes bear an interest of 4.525% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2049 Notes were issued at 99.967% of the aggregate principal amount. On 3 June 2020, we completed the issue of the January 2026 Notes in an aggregate amount of US$1,000 million that will mature on 26 January 2026. The January 2026 Notes bear an interest of 1.810% per annum from 3 June 2020, payable semi-annually in arrears on 26 January and 26 July of each year. The January 2026 Notes were issued at 99.988% of the aggregate principal amount. On 3 June 2020, we completed the issue of the 2030 Notes in an aggregate amount of US$2,250 million that will mature on 3 June 2030. The 2030 Notes bear an interest of 2.390% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2030 Notes were issued at 99.973% of the aggregate principal amount. On 3 June 2020, we completed the issue of the 2050 Notes in an aggregate amount of US$2,000 million that will mature on 3 June 2050. The 2050 Notes bear an interest of 3.240% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2050 Notes were issued at 99.943% of the aggregate principal amount. On 3 June 2020, we completed the issue of the 2060 Notes in an aggregate amount of US$750 million that will mature on 3 June 2060. The 2060 Notes bear an interest of 3.290% per annum from 3 June 2020, payable semi-annually in arrears on 3 June and 3 December of each year. The 2060 Notes were issued at 99.934% of the aggregate principal amount. On 3 September 2020, TME completed the issue of the TME 2025 Notes in an aggregate amount of US$300 million that will mature on 3

September 2025. The TME 2025 Notes bear an interest of 1.375% per annum from 3 September 2020, payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2025 Notes were issued at 99.928% of the aggregate principal amount. On 3 September 2020, TME completed the issue of the TME 2030 Notes in an aggregate amount of US$500 million that will mature on 3 September 2030. The TME 2030 Notes bear an interest of 2.000% per annum from 3 September 2020, payable semi-annually in arrears on 3 March and 3 September of each year. The TME 2030 Notes were issued at 99.595% of the aggregate principal amount.

CONTRACTUAL OBLIGATIONS

Capital Commitments

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

	As at 31 December			
	2018	**2019**	**2020**	
	(Audited)	**(Audited)**	**(Audited)**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Contracted:				
Construction/purchase of buildings and purchase of land use rights	2,219	4,180	3,541	543
Purchase of other property, plant and equipment	357	331	391	60
Capital investment in investees	8,763	18,206	21,656	3,319
Total	**11,339**	**22,717**	**25,588**	**3,922**

Operating Lease Commitments[1]

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

	As at 31 December
	2018
	(Audited)
	(RMB in millions)
Contracted:	
Not later than one year	2,632
Later than one year and not later than five years	7,398
Later than five years	2,264
Total	**12,294**

Note:

(1) On adoption of IFRS 16 from 1 January 2019, we recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. As a result, we have no significant operating lease commitments after the adoption of IFRS 16.

Other Commitments

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

	As at 31 December			
	2018	**2019**	**2020**	
	(Audited)	**(Audited)**	**(Audited)**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Contracted:				
Not later than one year	7,260	12,405	11,443	1,754
Later than one year and not later than five years	8,332	17,647	9,847	1,509
Later than five years	2,279	3,323	4,199	643
Total	**17,871**	**33,375**	**25,489**	**3,906**

Off-balance Sheet Commitments and Arrangements

Except for the commitments set forth above, we had no material off-balance sheet transactions or arrangements as at 31 December 2020.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

Foreign exchange risk

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

We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures.

Price risk

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

Interest rate risk

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

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

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

We entered into certain interest rate swap contracts to hedge our exposure arising from our borrowings and senior notes carried at floating rates. Under these interest rate swap contracts, we agreed with the counterparties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings and senior notes from floating rates to fixed rates and were qualified for hedge accounting.

Credit risk

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

The majority of the balances of accounts receivable are due from online advertising customers and agencies, content production related customers, FinTech and cloud customers and third-party platform providers. To manage the risk arising from accounts receivable, we have policies in place to ensure that revenues of credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of the counterparties. The credit periods granted to these customers are usually not more than 90 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. We have a large number of customers and there is no significant concentration of credit risk.

Other receivables are mainly comprised of receivables related to financial services, interest receivables, loans to investees and investees' shareholders, lease deposits and other receivables. Management manages the loans by category, makes periodic assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

For financial assets whose impairment losses are measured using expected credit loss ("ECL") model, we assess whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognise their ECL, as follows:

– Stage 1: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage 1.

– Stage 2: If the credit risk has increased significantly since its initial recognition but not yet deemed to be credit-impaired, the financial instrument is included in stage 2.

– Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in stage 3.

We consider the credit risk characteristics of different financial instruments when determining if there is significant increase in credit risk. For financial instruments with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively.

We consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk, we compare risk of a default occurring on the assets as at year end with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counterparty; and
- significant changes in the expected performance and behaviour of the counterparty, including changes in the payment status of the counterparty.

i. Credit risk of cash and deposits

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

ii. Credit risk of accounts receivable

We apply the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. In view of the sound financial position and collection history of receivables due from these counterparties and insignificant risk of default, to measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of revenue over 12 months before 31 December 2020 and the corresponding historical credit losses experienced within this period, or probability of a receivable progressing through successive stages of delinquency to write-off. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as the GDP of the countries in which it sells its goods and services) affecting the ability of the customers to settle the receivables.

A default on accounts receivable is when the counterparty fails to make contractual payments within 90 days when they fall due. Accounts receivable are written off, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan within us, and a failure to make contractual payments for a period of greater than 3 years past due.

Impairment losses on accounts receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same item.

iii. Credit risk of other receivables

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

Liquidity risk

We aim to maintain sufficient cash and cash equivalents and readily marketable securities, which are classified as FVPL. Due to the dynamic nature of the underlying businesses, we maintain flexibility in funding by maintaining adequate balances of such.