Tencent 腾讯

Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號：700)

smart communication inspires

智慧溝通 靈感無限

2021 Annual Report

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Corporate Information

DIRECTORS

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Ian Charles Stone
Yang Siu Shun
Ke Yang
Iain Ferguson Bruce
(retired with effect from
20 May 2021)

AUDIT COMMITTEE

Yang Siu Shun *(Chairman)*
Ian Charles Stone
Charles St Leger Searle
Iain Ferguson Bruce
(retired with effect from
20 May 2021)

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle *(Chairman)*
Ian Charles Stone
Yang Siu Shun
Ke Yang
Iain Ferguson Bruce
(retired with effect from
20 May 2021)

INVESTMENT COMMITTEE

Lau Chi Ping Martin *(Chairman)*
Ma Huateng
Charles St Leger Searle

NOMINATION COMMITTEE

Ma Huateng *(Chairman)*
Li Dong Sheng
Ian Charles Stone
Yang Siu Shun
(appointed with effect from
20 May 2021)
Charles St Leger Searle
Iain Ferguson Bruce
(retired with effect from
20 May 2021)

REMUNERATION COMMITTEE

Ian Charles Stone *(Chairman)*
Li Dong Sheng
Jacobus Petrus (Koos) Bekker

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China Limited
The Hongkong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

TENCENT GROUP HEAD OFFICE

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No. 33 Haitian 2nd Road
Nanshan District
Shenzhen, 518054
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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No. 1 Queen's Road East
Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court
Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2017 RMB'Million	2018 RMB'Million	2019 RMB'Million	2020 RMB'Million	**2021 RMB'Million**
Revenues	237,760	312,694	377,289	482,064	**560,118**
Gross profit	116,925	142,120	167,533	221,532	**245,944**
Profit before income tax	88,215	94,466	109,400	180,022	**248,062**
Profit for the year	72,471	79,984	95,888	160,125	**227,810**
Profit attributable to equity holders of the Company	71,510	78,719	93,310	159,847	**224,822**
Total comprehensive income for the year	79,061	67,760	119,901	281,173	**200,390**
Total comprehensive income attributable to equity holders of the Company	78,218	66,339	116,670	277,834	**200,323**
Non-IFRS operating profit	82,023	92,481	114,601	149,404	**159,539**
Non-IFRS profit attributable to equity holders of the Company	65,126	77,469	94,351	122,742	**123,788**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2017 RMB'Million	2018 RMB'Million	2019 RMB'Million	2020 RMB'Million	**2021 RMB'Million**
Assets					
Non-current assets	376,226	506,441	700,018	1,015,778	**1,127,552**
Current assets	178,446	217,080	253,968	317,647	**484,812**
Total assets	554,672	723,521	953,986	1,333,425	**1,612,364**
Equity and liabilities					
Equity attributable to equity holders of the Company	256,074	323,510	432,706	703,984	**806,299**
Non-controlling interests	21,019	32,697	56,118	74,059	**70,394**
Total equity	277,093	356,207	488,824	778,043	**876,693**
Non-current liabilities	125,839	164,879	225,006	286,303	**332,573**
Current liabilities	151,740	202,435	240,156	269,079	**403,098**
Total liabilities	277,579	367,314	465,162	555,382	**735,671**
Total equity and liabilities	554,672	723,521	953,986	1,333,425	**1,612,364**

Chairman's Statement

I am pleased to present our annual report for the year ended 31 December 2021 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2021 was RMB224,822 million, an increase of 41% compared with the results for the previous year. Basic and diluted EPS for the year ended 31 December 2021 were RMB23.597 and RMB23.164, respectively.

The Group's non-IFRS profit attributable to equity holders of the Company for the year ended 31 December 2021 was RMB123,788 million, an increase of 1% compared with the results for the previous year. Non-IFRS basic and diluted EPS for the year ended 31 December 2021 were RMB12.992 and RMB12.698, respectively.

OPERATING INFORMATION

	As at 31 December 2021	As at 31 December 2020	Year-on-year change	As at 30 September 2021	Quarter-on-quarter change
		(in millions, unless specified)			
Combined MAU of Weixin and WeChat	**1,268.2**	1,225.0	3.5%	1,262.6	0.4%
Smart device MAU of QQ	**552.1**	594.9	-7.2%	573.7	-3.8%
Fee-based VAS registered subscriptions	**236.3**	219.5	7.7%	235.4	0.4%

BUSINESS REVIEW AND OUTLOOK

Strategic Progress and Outlook

2021 was a challenging year, in which we embraced changes and implemented certain measures that reinforced the Company's long-term sustainability, but had the effect of slowing our revenue growth. Despite financial headwinds, we continued to make strategic headway, including driving widespread adoption of our enterprise software and productivity tools, increasing content creation and consumption in our Video Accounts, and expanding our International Games business. We believe the China Internet industry is structurally shifting to a healthier mode characterised by a re-focus on user value, technology innovation, and social responsibility. We are proactively adapting to the new environment by managing costs, increasing efficiency, sharpening our focus on key strategic areas, and repositioning ourselves for sustainable long-term growth. Below are some highlights from our key products and business lines during the reporting quarter:

Communication and Social

Weixin Video Accounts' time spent per user and total video views more than doubled year-on-year as we enriched content diversity and enhanced our product experience. Video Accounts Live Streaming achieved significant breakthroughs in user reach and engagement, exclusively hosting popular boy band Westlife's first-ever online concert, which drew 27 million viewers. While our current focus is primarily on user engagement, we believe Video Accounts will provide significant monetisation opportunities, including short video feeds advertisements, live streaming tipping and live streaming eCommerce. Weixin Mini Programs facilitated independent merchants to thrive within their own private domains, with their physical goods GMV doubling in 2021. Our Health Code has served 1.3 billion users making 180 billion visits, becoming the most-used ePass for verifying health and travel status during the pandemic.

QQ integrated Unreal Engine's graphics capabilities to enable real-time rendering and physics simulation, providing more attractive visuals and lifelike interactions for users. We are testing an application of Unreal Engine in Super QQ Show, which allows users to customise and dress up their 3D virtual avatars, for use in various social scenarios.

Digital Content

Our fee-based VAS subscriptions grew 8% year-on-year to 236 million. Tencent Video increased its subscription counts 1% year-on-year to 124 million, and cemented its number one position in China with diversified content across animated series, drama series and sports. In view of the latest market conditions, we are implementing a cost optimisation process to reduce financial losses at Tencent Video while maintaining its leading position. For music, we grew subscription counts 36% year-on-year to 76 million, benefitting from expanded sales channels and high-quality content and services.

Domestic Games

We are cultivating our key IP franchises more deeply and broadly. For example, we are developing new games, animated series and a movie based on Honour of Kings' characters. We provided events tied into the Winter Olympics in Peacekeeper Elite, QQ Speed Mobile and QQ Dancer Mobile, delivering lifelike sports experience across multiple genres.

Our industry-leading efforts in restricting time spent and spending by Minors yielded effective results. In the fourth quarter of 2021, total time spent by Minors reduced by 88% year-on-year, and contributed 0.9% of the total time spent on our Domestic Games. Total grossing receipts from Minors reduced by 73% year-on-year, and contributed 1.5% of the total grossing receipts of our Domestic Games.

Looking ahead, we expect to fully digest the impact of Minor protection measures in the second half of 2022. We believe we will benefit from more new game launches when there are new releases of Banhao.

International Games

We achieved notable progress across different platforms and genres. Among international mobile games, we developed and operate 5 out of the top 10 titles measured by DAU. League of Legends' animated series, Arcane, topped Netflix's English-language TV series viewership chart during the week following its release. League of Legends World Championship consolidated its leadership as the world's most popular eSports tournament, attracting a record-high of approximately 74 million peak concurrent viewers for its Finals. Clash Royale released one of the biggest updates in its history, boosting daily active users and grossing receipts. We launched our global game publishing brand, Level Infinite, to support our studios and partners in delivering games to international gamers.

Going forward, we aim to grow further our existing titles via deepening market penetration, product enhancements and operational optimisation. In addition, we will continue to release new titles, which we expect to drive additional growth, particularly for 2023 and beyond.

Online Advertising

We continued to enhance our differentiated advertising solutions, while adapting to regulatory changes and the evolving macroeconomic environment. For the fourth quarter of 2021, Weixin's daily active advertisers expanded by over 30% year-on-year. Over one-third of Moments' advertising revenue was generated from advertisements using Mini Programs as landing pages and advertisements connecting users to customer service representatives via WeCom. We expect our advertising business to resume growth in late 2022, as we adapt to the new environment and further upgrade our advertising solutions.

FinTech

We strengthened our payment ecosystem by enhancing user security, upgrading transaction and customer management functions for SMEs, as well as reducing merchants' transaction friction via tools such as Weixin Pay Score. We now support e-CNY as an additional funding option within Weixin Pay, as part of the PBOC's e-CNY pilot phase.

Cloud and Other Business Services

For communication and collaboration SaaS, we upgraded the integration among WeCom, Tencent Meeting and Tencent Docs to provide enhanced solutions for enterprises. We also enabled differentiated CRM functions in WeCom via deepened connection with Weixin. While we are currently prioritising scale expansion before significant revenue generation, the monetisation success of critical enterprise SaaS such as CRM software in international markets, as well as the significant size and fast growth of domestic PaaS spending, validate the monetisation potential of critical enterprise SaaS in China.

In view of the changes in market environment, we are repositioning our focus for IaaS and PaaS from revenue growth at all costs to customer value creation and quality of growth. We believe that the change in focus will benefit our customers, as well as our margins, over the longer term.

Environmental, Social and Governance ("ESG") Initiatives

We are committed to harnessing technology to build a sustainable future for our consumers, enterprises, and society at large.

Environment

We announced our commitment to achieve carbon neutrality in our own operations and supply chain, and to use green power for 100% of all electricity consumed by 2030. In our inaugural Tencent Carbon Neutrality Target and Roadmap Report, we outlined key approaches in reaching the net zero goal for scopes 1, 2 and 3. We will improve our power efficiency through technology innovations, increase our usage of renewable energy, actively participate in green power trading, and explore investments in renewable energy projects. We joined the Science-Based Carbon Targets initiative (SBTi) to facilitate the transition to a zero-carbon operation.

Social

In 2021, we established the Sustainable Social Value (SSV) Organisation and announced our commitment to common prosperity initiatives. We upgraded our charitable fundraising platform, extending the reach of our annual "99 Giving Day" to engage 69 million donations and 12,000 enterprises. Leveraging Internet of Things solutions and Weixin Mini Programs, we built a public emergency response platform which connects emergency control centres with volunteers and locates nearby Automated External Defibrillator equipment for offering first aid. We adapted many of our apps to provide elderly-oriented and barrier-free services for senior citizens. We set up dedicated funds to support basic scientific research, as well as critical healthcare and environmental technologies.

Governance

Supplementing risk management and internal control policies we already have in place, we enhanced our internal anti-trust compliance system in 2021, including establishing a dedicated compliance department, updating guidelines for all our businesses, and strengthening staff training. We also updated our policies on anti-money laundering and sanctions compliance to closely follow domestic and global regulatory requirements and trends. Our corporate culture supports diversity and inclusion. We collaborated with the United Nation Development Programme (UNDP) to produce videos and articles promoting women leadership in the technology industry.

Chairman's Statement

DIVIDENDS

The Board has recommended the payment of a final dividend of HKD1.60 per share (2020: HKD1.60 per share) for the year ended 31 December 2021, subject to the approval of the shareholders at the 2022 AGM. Such proposed dividend will be payable on 6 June 2022 to the shareholders whose names appear on the register of members of the Company on 25 May 2022.

On 23 December 2021, the Board resolved to declare a special interim dividend in the form of a distribution in specie of approximately 457 million Class A ordinary shares of JD.com indirectly held by the Company to the shareholders whose names appeared on the register of members of the Company on 25 January 2022 in proportion to their then respective shareholdings in the Company on the basis of 1 Class A ordinary share of JD.com for every 21 Shares held by the shareholders, being rounded down to the nearest whole number of Class A ordinary shares of JD.com.

APPRECIATION

On behalf of the Board, I would like to thank wholeheartedly our staff and management team for their dedication and professionalism, which have been the cornerstone of the Group's sustainable development. Further, I would like to extend our gratitude to all our shareholders and stakeholders for their continuous support and trust. We will continue to adhere to our strategy of promoting sustainable innovations for social value, alongside nurturing the consumer Internet and embracing the industrial Internet, and contribute more to the common good and value of our society.

Ma Huateng
Chairman

Hong Kong, 23 March 2022

YEAR ENDED 31 DECEMBER 2021 COMPARED TO YEAR ENDED 31 DECEMBER 2020

The following table sets forth the comparative figures for the years ended 31 December 2021 and 2020:

	Year ended 31 December	
	2021	2020
	(RMB in millions)	
Revenues	**560,118**	482,064
Cost of revenues	**(314,174)**	(260,532)
Gross profit	**245,944**	221,532
Interest income	**6,650**	6,957
Other gains, net	**149,467**	57,131
Selling and marketing expenses	**(40,594)**	(33,758)
General and administrative expenses	**(89,847)**	(67,625)
Operating profit	**271,620**	184,237
Finance costs, net	**(7,114)**	(7,887)
Share of (loss)/profit of associates and joint ventures, net	**(16,444)**	3,672
Profit before income tax	**248,062**	180,022
Income tax expense	**(20,252)**	(19,897)
Profit for the year	**227,810**	160,125
Attributable to:		
Equity holders of the Company	**224,822**	159,847
Non-controlling interests	**2,988**	278
	227,810	160,125
Non-IFRS operating profit	**159,539**	149,404
Non-IFRS profit attributable to equity holders of the Company	**123,788**	122,742

Management Discussion and Analysis

Revenues. Revenues increased by 16% to RMB560.1 billion for the year ended 31 December 2021 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended 31 December 2021 and 2020:

	Year ended 31 December			
	2021		2020	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	**291,572**	**52%**	264,212	55%
Online Advertising	**88,666**	**16%**	82,271	17%
FinTech and Business Services	**172,195**	**31%**	128,086	27%
Others	**7,685**	**1%**	7,495	1%
Total revenues	**560,118**	**100%**	482,064	100%

– Revenues from VAS[1] increased by 10% to RMB291.6 billion for the year ended 31 December 2021 on a year-on-year basis. Domestic Games revenues grew by 6% to RMB128.8 billion, driven by games including Honour of Kings, Call of Duty Mobile and Moonlight Blade Mobile, partly offset by a decrease in revenues from DnF and Peacekeeper Elite. We implemented a comprehensive set of measures for the protection of Minors within our Domestic Games, which impacted revenue growth directly (less spending by Minors) and indirectly (developer resources focused on implementation of new measures). International Games revenues grew by 31% to RMB45.5 billion, due to robust performance of games including PUBG Mobile, Valorant, Brawl Stars and Clash of Clans. Social Networks revenues increased by 8% to RMB117.3 billion, driven by our Video Accounts live streaming service, video subscription service, and contribution from consolidation of HUYA since April 2020.

[1] From the third quarter of 2021, we disclose revenues from Domestic Games and International Games as new sub-segments under VAS, reflecting the increasing scale of our International Games business. Mobile games VAS revenues (including mobile games revenues attributable to our Social Networks business) increased by 12% year-on-year to RMB164.8 billion, while PC client games revenues grew by 2% year-on-year to RMB45.3 billion for the year ended 31 December 2021.

– Revenues from Online Advertising increased by 8% to RMB88.6 billion for the year ended 31 December 2021 on a year-on-year basis, with strong growth witnessed in the early half of the year, followed by significant slowdown and then decline in the latter half of the year as our advertisers and our own advertising services adapted to the new economic and regulatory environment, particularly in the third and fourth quarters. Online Advertising full year revenue growth reflected the relative resilience of the consumer staples category, as well as consolidation of Bitauto's and Sogou's advertising revenues, partly offset by headwinds from regulatory changes in advertiser categories including education, property and insurance, as well as by regulatory measures on the online advertising industry itself, such as limitations on launch screen advertisements. Social and Others Advertising revenues grew by 11% to RMB75.3 billion, driven by increased advertiser demand for Weixin properties. Media Advertising revenues decreased by 7% to RMB13.3 billion, mainly due to lower advertising revenues from our media platforms including Tencent News and Tencent Video amid the challenging macro environment and delays to content launches.

– Revenues from FinTech and Business Services increased by 34% to RMB172.2 billion for the year ended 31 December 2021 on a year-on-year basis. FinTech Services revenue growth primarily reflected increasing commercial payment volume. Business Services revenues increased rapidly year-on-year, due to digitalisation of traditional industries and videolisation of the Internet industry, as well as consolidation of Bitauto's Business Services revenue since November 2020.

Cost of revenues. Cost of revenues increased by 21% to RMB314.2 billion for the year ended 31 December 2021 on a year-on-year basis, primarily driven by transaction costs to handle increased payment-related transaction volumes, content and infrastructure investments, cloud project deployment costs, as well as channel and distribution costs. As a percentage of revenues, cost of revenues increased to 56% for the year ended 31 December 2021 from 54% for the year ended 31 December 2020, reflecting our continuous investment in key strategic areas, as well as a revenue mix shift toward currently lower gross margin activities. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2021 and 2020:

	Year ended 31 December			
	2021		2020	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**138,636**	**48%**	121,287	46%
Online Advertising	**48,072**	**54%**	40,011	49%
FinTech and Business Services	**120,799**	**70%**	91,835	72%
Others	**6,667**	**87%**	7,399	99%
Total cost of revenues	**314,174**		260,532	

- Cost of revenues for VAS increased by 14% year-on-year to RMB138.6 billion for the year ended 31 December 2021, due to revenue sharing costs associated with our Video Accounts live streaming service, increased channel and content costs for games, as well as increased costs associated with the consolidation of HUYA.

- Cost of revenues for Online Advertising increased by 20% year-on-year to RMB48.1 billion for the year ended 31 December 2021, driven by increased server and bandwidth costs including those associated with our Video Accounts service, as well as increased content costs, primarily for our Tencent Video and Tencent Sports services.

- Cost of revenues for FinTech and Business Services increased by 32% year-on-year to RMB120.8 billion for the year ended 31 December 2021, reflecting increased transaction costs due to payment volume growth, as well as our continuous investment in cloud computing talent and operations.

Other gains, net. We recorded net other gains of RMB149.5 billion for the year ended 31 December 2021, which were primarily non-IFRS adjustment items such as net gains on deemed disposals and disposals of certain investee companies (including a RMB78.2 billion gain from deemed disposal of JD.com), and net fair value gains from revaluation of certain investee companies, partly offset by impairment provisions against certain investee companies reflecting revisions of their financial outlooks and changes in their business environments.

Selling and marketing expenses. Selling and marketing expenses increased by 20% to RMB40.6 billion for the year ended 31 December 2021 on a year-on-year basis, reflecting greater marketing spending on games and Business Services, including those associated with the consolidation of recently acquired subsidiaries. As a percentage of revenues, selling and marketing expenses was 7% for the year ended 31 December 2021, broadly stable compared to the year ended 31 December 2020.

General and administrative expenses. General and administrative expenses increased by 33% to RMB89.8 billion for the year ended 31 December 2021 on a year-on-year basis, mainly driven by increased R&D expenses and staff costs, including higher share-based compensation expenses, reflecting unusually intense competition for talent in 2020 and 2021, which we expect to moderate in 2022. As a percentage of revenues, general and administrative expenses increased to 16% for the year ended 31 December 2021 from 14% for the year ended 31 December 2020.

Finance costs, net. Net finance costs decreased by 10% to RMB7.1 billion for the year ended 31 December 2021 on a year-on-year basis, primarily due to net exchange gains recognised for the year ended 31 December 2021 compared to net exchange losses for the year ended 31 December 2020, partly offset by the increase in interest expenses as a result of increased indebtedness.

Share of loss/profit of associates and joint ventures, net. We recorded share of losses of associates and joint ventures of RMB16.4 billion for the year ended 31 December 2021, compared to share of profits of RMB3.7 billion for the year ended 31 December 2020. Non-IFRS share of losses of associates and joint ventures were RMB1.0 billion for the year ended 31 December 2021, compared to non-IFRS share of profits of RMB6.7 billion for the year ended 31 December 2020, reflecting increased investments in community retail initiatives by certain associates, and losses recognised from an associate in the transportation services vertical.

Income tax expense. Income tax expense increased by 2% to RMB20.3 billion for the year ended 31 December 2021 on a year-on-year basis.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 41% to RMB224.8 billion for the year ended 31 December 2021 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 1% to RMB123.8 billion for the year ended 31 December 2021.

FOURTH QUARTER OF 2021 COMPARED TO FOURTH QUARTER OF 2020

The following table sets forth the comparative figures for the fourth quarter of 2021 and the fourth quarter of 2020:

	Unaudited	
	Three months ended	
	31 December 2021	31 December 2020
	(RMB in millions)	
Revenues	**144,188**	133,669
Cost of revenues	**(86,371)**	(74,788)
Gross profit	**57,817**	58,881
Interest income	**1,703**	1,708
Other gains, net	**86,199**	32,936
Selling and marketing expenses	**(11,616)**	(10,033)
General and administrative expenses	**(24,380)**	(19,779)
Operating profit	**109,723**	63,713
Finance costs, net	**(1,863)**	(2,253)
Share of (loss)/profit of associates and joint ventures, net	**(8,267)**	1,618
Profit before income tax	**99,593**	63,078
Income tax expense	**(3,888)**	(3,709)
Profit for the period	**95,705**	59,369
Attributable to:		
Equity holders of the Company	**94,958**	59,302
Non-controlling interests	**747**	67
	95,705	59,369
Non-IFRS operating profit	**33,151**	38,084
Non-IFRS profit attributable to equity holders of the Company	**24,880**	33,207

Revenues. Revenues increased by 8% to RMB144.2 billion for the fourth quarter of 2021 on a year-on-year basis. The following table sets forth our revenues by line of business for the fourth quarter of 2021 and the fourth quarter of 2020:

	Unaudited			
	Three months ended			
	31 December 2021		31 December 2020	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	**71,913**	**50%**	66,979	50%
Online Advertising	**21,518**	**15%**	24,655	18%
FinTech and Business Services	**47,958**	**33%**	38,494	29%
Others	**2,799**	**2%**	3,541	3%
Total revenues	**144,188**	**100%**	133,669	100%

– Revenues from VAS[2] increased by 7% to RMB71.9 billion for the fourth quarter of 2021 on a year-on-year basis. Domestic Games revenues grew by 1% to RMB29.6 billion, driven by games including Honour of Kings, as well as recently launched titles such as Fight of The Golden Spatula and League of Legends: Wild Rift, partly offset by the decrease in revenues from Moonlight Blade Mobile and Peacekeeper Elite. International Games revenues grew by 34% to RMB13.2 billion, reflecting new content for Valorant and Clash Royale, a true-up adjustment to revenue of Supercell upon periodic review of our revenue deferral periods, and consolidation of Digital Extremes. Social Networks revenues grew by 4% to RMB29.1 billion, driven by our Video Accounts live streaming service, video and music subscription services.

– Revenues from Online Advertising decreased by 13% to RMB21.5 billion for the fourth quarter of 2021 on a year-on-year basis. The year-on-year decrease in Online Advertising revenues reflected weakness in advertiser categories including education, games and Internet services, partly offset by the consolidation of Sogou's advertising revenue. Social and Others Advertising revenues decreased by 10% to RMB18.3 billion, primarily due to lower advertising revenues from our mobile advertising network and Weixin Moments. Media Advertising revenues decreased by 25% to RMB3.2 billion, reflecting lower advertising revenues from Tencent Video and Tencent News services.

2 Mobile games VAS revenues (including mobile games revenues attributable to our Social Networks business) increased by 9% year-on-year to RMB40.0 billion, while PC client games revenues grew by 4% year-on-year to RMB10.6 billion for the fourth quarter of 2021.

– Revenues from FinTech and Business Services increased by 25% to RMB48.0 billion for the fourth quarter of 2021 on a year-on-year basis. FinTech Services revenue growth mainly reflected increasing commercial payment volume. Business Services revenue growth was primarily driven by increased use of our services by Internet services, public transportation and retail industries.

Cost of revenues. Cost of revenues increased by 15% to RMB86.4 billion for the fourth quarter of 2021 on a year-on-year basis, driven by transaction costs to handle increased payment-related transaction volumes, cloud project deployment costs, server and bandwidth costs, as well as content costs, partly offset by decreased channel and distribution costs. As a percentage of revenues, cost of revenues increased to 60% for the fourth quarter of 2021 from 56% for the fourth quarter of 2020, reflecting costs growing faster than revenues in certain businesses and our continued investment in key strategic areas. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2021 and the fourth quarter of 2020:

	Unaudited Three months ended			
	31 December 2021		31 December 2020	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**36,869**	**51%**	32,512	49%
Online Advertising	**12,338**	**57%**	11,520	47%
FinTech and Business Services	**34,942**	**73%**	27,538	72%
Others	**2,222**	**79%**	3,218	91%
Total cost of revenues	**86,371**		74,788	

– Cost of revenues for VAS increased by 13% to RMB36.9 billion for the fourth quarter of 2021 on a year-on-year basis, mainly due to increased content and channel costs for games, as well as revenue sharing costs associated with our Video Accounts live streaming service.

– Cost of revenues for Online Advertising increased by 7% to RMB12.3 billion for the fourth quarter of 2021 on a year-on-year basis, driven by increased server and bandwidth costs including those associated with our Video Accounts service, as well as increased content costs, partly offset by decreased channel and distribution costs.

– Cost of revenues for FinTech and Business Services increased by 27% to RMB34.9 billion for the fourth quarter of 2021 on a year-on-year basis, reflecting increased transaction costs due to payment volume growth, and our continuous investment in cloud computing talent and operations.

Other gains, net. We recorded net other gains of RMB86.2 billion for the fourth quarter of 2021, which were primarily non-IFRS adjustment items such as net gains on deemed disposals and disposals of certain investee companies (including a RMB78.0 billion gain arising from the cessation of JD.com as an associate, due to the resignation of our board representative).

Selling and marketing expenses. Selling and marketing expenses increased by 16% to RMB11.6 billion for the fourth quarter of 2021 on a year-on-year basis, reflecting increased marketing spending on games partly offset by decreased spending on digital content services. As a percentage of revenues, selling and marketing expenses was 8% for the fourth quarter of 2021, broadly stable compared to the fourth quarter of 2020.

General and administrative expenses. General and administrative expenses increased by 23% to RMB24.4 billion for the fourth quarter of 2021 on a year-on-year basis, mainly driven by increased R&D expenses and staff costs, including higher share-based compensation expenses, reflecting unusually intense competition for talent in 2020 and 2021, which we expect to moderate in 2022. As a percentage of revenues, general and administrative expenses increased to 17% for the fourth quarter of 2021 from 15% for the fourth quarter of 2020.

Finance costs, net. Net finance costs decreased by 17% to RMB1.9 billion for the fourth quarter of 2021 on a year-on-year basis, primarily due to foreign exchange gains recognised this quarter compared to losses for the fourth quarter of 2020, partly offset by the increase in interest expenses as a result of increased indebtedness.

Share of loss/profit of associates and joint ventures, net. We recorded share of losses of associates and joint ventures of RMB8.3 billion for the fourth quarter of 2021, compared to share of profits of RMB1.6 billion for the fourth quarter of 2020. Non-IFRS share of losses of associates and joint ventures were RMB0.8 billion for the fourth quarter of 2021, compared to non-IFRS share of profits of RMB2.7 billion for the fourth quarter of 2020, reflecting increased investments in community retail initiatives by certain associates, and losses recognised from an associate in the transportation services vertical.

Income tax expense. Income tax expense increased by 5% to RMB3.9 billion for the fourth quarter of 2021 on a year-on-year basis.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 60% to RMB95.0 billion for the fourth quarter of 2021 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company decreased by 25% to RMB24.9 billion for the fourth quarter of 2021 as costs and expenses generally increased faster than revenues, and as net associate contributions moved from profits to losses, for the reasons cited above.

FOURTH QUARTER OF 2021 COMPARED TO THIRD QUARTER OF 2021

The following table sets forth the comparative figures for the fourth quarter of 2021 and the third quarter of 2021:

	Unaudited Three months ended	
	31 December 2021	30 September 2021
	(RMB in millions)	
Revenues	**144,188**	142,368
Cost of revenues	**(86,371)**	(79,621)
Gross profit	**57,817**	62,747
Interest income	**1,703**	1,703
Other gains, net	**86,199**	22,984
Selling and marketing expenses	**(11,616)**	(10,435)
General and administrative expenses	**(24,380)**	(23,862)
Operating profit	**109,723**	53,137
Finance costs, net	**(1,863)**	(1,942)
Share of losses of associates and joint ventures, net	**(8,267)**	(5,668)
Profit before income tax	**99,593**	45,527
Income tax expense	**(3,888)**	(5,452)
Profit for the period	**95,705**	40,075
Attributable to:		
Equity holders of the Company	**94,958**	39,510
Non-controlling interests	**747**	565
	95,705	40,075
Non-IFRS operating profit	**33,151**	40,828
Non-IFRS profit attributable to equity holders of the Company	**24,880**	31,751

Revenues. Revenues increased by 1% to RMB144.2 billion for the fourth quarter of 2021 on a quarter-on-quarter basis.

– Revenues from VAS decreased by 4% to RMB71.9 billion for the fourth quarter of 2021. Domestic Games revenues decreased by 12% to RMB29.6 billion due to lower revenues from several of our existing games reflecting seasonally lower revenues in the fourth quarter as well as additional measures implemented in the quarter for the protection of Minors. This weakness was partly offset by revenue contributions from recently launched titles including League of Legends: Wild Rift and Fight of The Golden Spatula. International Games revenues increased by 16% to RMB13.2 billion, reflecting revenue growth from games such as Valorant, Brawl Stars, and Clash Royale, as well as a true-up adjustment to revenue of Supercell upon periodic review of our revenue deferral periods. Social Networks revenues decreased by 4% to RMB29.1 billion, due to the decrease in revenues from in-game item sales, partly offset by revenue growth from our Video Accounts live streaming service.

– Revenues from Online Advertising decreased by 4% to RMB21.5 billion for the fourth quarter of 2021, reflecting a slower-than-usual seasonal spending upturn in advertiser categories such as eCommerce and consumer staples, as well as weakness in categories such as Internet services, education, and games. Social and Others Advertising revenues decreased by 4% to RMB18.3 billion, reflecting lower advertising revenues from Weixin and QQ properties, as well as our mobile advertising network, partly offset by the consolidation of Sogou's advertising revenue. Media Advertising revenues decreased by 8% to RMB3.2 billion, primarily due to lower advertising revenues from the Tencent Video service.

– Revenues from FinTech and Business Services increased by 11% to RMB48.0 billion for the fourth quarter of 2021, reflecting seasonally higher revenues from cloud services due to year-end project deployments, as well as higher revenues from payment services.

Cost of revenues. Cost of revenues increased by 8% to RMB86.4 billion for the fourth quarter of 2021 on a quarter-on-quarter basis, reflecting increased investment in Business Services, content costs, and transaction costs of FinTech services, partly offset by decreased channel and distribution costs. As a percentage of revenues, cost of revenues increased to 60% for the fourth quarter of 2021 from 56% for the third quarter of 2021, reflecting costs growing faster than revenues in certain businesses and seasonality.

– Cost of revenues for VAS increased by 4% to RMB36.9 billion for the fourth quarter of 2021 primarily due to increased content costs, including those associated with eSports events held in the quarter.

– Cost of revenues for Online Advertising increased by 2% to RMB12.3 billion for the fourth quarter of 2021, driven by increased bandwidth and server costs, including those associated with Video Accounts, partly offset by decreased channel and distribution costs as well as content costs.

– Cost of revenues for FinTech and Business Services increased by 13% to RMB34.9 billion for the fourth quarter of 2021, primarily due to increased investment in cloud computing talent and operations, costs associated with year-end cloud project deployments, as well as increased transaction costs due to payment volume growth.

Selling and marketing expenses. Selling and marketing expenses increased by 11% to RMB11.6 billion for the fourth quarter of 2021 on a quarter-on-quarter basis, due to increased marketing spending related to games (including expenses associated with the global launch of the Arcane animated series), and Business Services, partly offset by decreased spending on user acquisition for non-core areas.

General and administrative expenses. General and administrative expenses increased by 2% to RMB24.4 billion for the fourth quarter of 2021 on a quarter-on-quarter basis.

Share of losses of associates and joint ventures, net. We recorded share of losses of associates and joint ventures of RMB8.3 billion for the fourth quarter of 2021, compared to share of losses of RMB5.7 billion for the third quarter of 2021. Non-IFRS share of losses of associates and joint ventures were RMB0.8 billion for the fourth quarter of 2021, compared to non-IFRS share of losses of RMB0.3 billion for the third quarter of 2021, reflecting increased losses recognised from certain associates in verticals such as transportation services and local services.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 140% to RMB95.0 billion for the fourth quarter of 2021 on a quarter-on-quarter basis. Non-IFRS profit attributable to equity holders of the Company decreased by 22% to RMB24.9 billion for the fourth quarter of 2021.

OTHER FINANCIAL INFORMATION

	Unaudited				
	Three months ended			Year ended	
	31 December 2021	30 September 2021	31 December 2020	**31 December 2021**	31 December 2020
	(RMB in millions, unless specified)				
EBITDA (a)	**36,568**	42,683	42,872	**173,173**	170,680
Adjusted EBITDA (a)	**42,267**	49,257	46,533	**194,798**	183,314
Adjusted EBITDA margin (b)	**29%**	35%	35%	**35%**	38%
Interest and related expenses	**2,188**	2,092	1,766	**7,918**	7,449
Net (debt)/cash (c)	**(20,243)**	(26,146)	11,063	**(20,243)**	11,063
Capital expenditures (d)	**11,661**	7,061	9,659	**33,392**	33,960

Note:

(a) EBITDA is calculated as operating profit minus interest income and other gains/losses, net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, and amortisation of intangible assets and land use rights. Adjusted EBITDA is calculated as EBITDA plus equity-settled share-based compensation expenses.

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

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

(d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets (excluding video and music content, game licences and other content).

Management Discussion and Analysis

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

	Unaudited				
	Three months ended			Year ended	
	31 December 2021	30 September 2021	31 December 2020	**31 December 2021**	31 December 2020
	(RMB in millions, unless specified)				
Operating profit	**109,723**	53,137	63,713	**271,620**	184,237
Adjustments:					
Interest income	**(1,703)**	(1,703)	(1,708)	**(6,650)**	(6,957)
Other gains, net	**(86,199)**	(22,984)	(32,936)	**(149,467)**	(57,131)
Depreciation of property, plant and equipment and investment properties	**5,466**	5,374	4,939	**21,517**	17,685
Depreciation of right-of-use assets	**1,376**	1,129	1,036	**4,649**	3,773
Amortisation of intangible assets and land use rights	**7,905**	7,730	7,828	**31,504**	29,073
EBITDA	**36,568**	42,683	42,872	**173,173**	170,680
Equity-settled share-based compensation	**5,699**	6,574	3,661	**21,625**	12,634
Adjusted EBITDA	**42,267**	49,257	46,533	**194,798**	183,314

NON-IFRS FINANCIAL MEASURES

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

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

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the fourth quarter of 2021 and 2020, the third quarter of 2021, and the years ended 31 December 2021 and 2020 to the nearest measures prepared in accordance with IFRS:

	Unaudited three months ended 31 December 2021								
		Adjustments							
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions/ (reversals) (d)	SSV& CPP (e)	Others (f)	Income tax effects (g)	Non-IFRS
	(RMB in millions, unless specified)								
Operating profit	109,723	5,664	(100,349)	1,316	15,217	604	976	–	33,151
Profit for the period	95,705	7,880	(98,046)	3,340	15,573	604	1,568	(866)	25,758
Profit attributable to equity holders	94,958	7,776	(97,804)	3,010	15,573	604	1,567	(804)	24,880
EPS (RMB per share)									
– basic	9.957								2.609
– diluted	9.788								2.547
Operating margin	76%								23%
Net margin	66%								18%

	Unaudited three months ended 30 September 2021							
		Adjustments						
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions/ (reversals) (d)	SSV& CPP (e)	Income tax effects (g)	Non-IFRS
	(RMB in millions, unless specified)							
Operating profit	53,137	6,652	(26,569)	1,149	6,389	70	–	40,828
Profit for the period	40,075	10,242	(26,781)	3,093	6,452	70	(633)	32,518
Profit attributable to equity holders	39,510	10,063	(26,491)	2,719	6,452	70	(572)	31,751
EPS (RMB per share)								
– basic	4.143							3.329
– diluted	4.074							3.269
Operating margin	37%							29%
Net margin	28%							23%

	Unaudited three months ended 31 December 2020						
		Adjustments					
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions/ (reversals) (d)	Income tax effects (g)	Non-IFRS
	(RMB in millions, unless specified)						
Operating profit	63,713	3,744	(34,652)	885	4,394	–	38,084
Profit for the period	59,369	4,896	(36,149)	2,260	4,407	(329)	34,454
Profit attributable to equity holders	59,302	4,735	(36,928)	1,926	4,407	(235)	33,207
EPS (RMB per share)							
– basic	6.240						3.494
– diluted	6.112						3.413
Operating margin	48%						28%
Net margin	44%						26%

	Year ended 31 December 2021								
		Adjustments							
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions/ (reversals) (d)	SSV& CPP (e)	Others (f)	Income tax effects (g)	Non-IFRS
	(RMB in millions, unless specified)								
Operating profit	271,620	22,222	(165,632)	4,651	25,028	674	976	–	159,539
Profit for the year	227,810	30,816	(167,471)	12,272	25,541	674	1,568	(3,291)	127,919
Profit attributable to equity holders	224,822	30,070	(166,661)	10,848	25,534	674	1,567	(3,066)	123,788
EPS (RMB per share)									
– basic	23.597								12.992
– diluted	23.164								12.698
Operating margin	48%								28%
Net margin	41%								23%

	Year ended 31 December 2020						
		Adjustments					
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions/ (reversals) (d)	Income tax effects (g)	Non-IFRS
	(RMB in millions, unless specified)						
Operating profit	184,237	13,745	(63,299)	3,299	11,422	–	149,404
Profit for the year	160,125	17,089	(69,348)	7,723	12,684	(1,290)	126,983
Profit attributable to equity holders	159,847	16,228	(69,473)	6,387	10,673	(920)	122,742
EPS (RMB per share)							
– basic	16.844						12.934
– diluted	16.523						12.689
Operating margin	38%						31%
Net margin	33%						26%

Note:

(a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives

(b) Including net (gains)/losses on deemed disposals/disposals of investee companies, fair value changes arising from investee companies, and other expenses in relation to equity transactions of investee companies

(c) Amortisation of intangible assets resulting from acquisitions

(d) Impairment provisions/(reversals) for associates, joint ventures, goodwill and other intangible assets arising from acquisitions

(e) Mainly including donations and expenses incurred for the Group's SSV & CPP initiatives (excluding share-based compensation expenses)

(f) Mainly including expenses incurred for regulatory fines in the Mainland of China and certain litigation settlements

(g) Income tax effects of non-IFRS adjustments

INVESTMENTS HELD

As at 31 December 2021, our investment portfolio amounted to approximately RMB878,653 million (31 December 2020: RMB690,886 million) as recorded in the consolidated statement of financial position under various categories including:

– investments in associates and joint ventures which are accounted for by using equity method; and

– financial assets at fair value through profit or loss and through other comprehensive income (including assets held for distribution).

Changes in respective items in the consolidated statement of financial position have been disclosed in the notes to the consolidated financial statements in this annual report.

We manage our investment portfolio with a primary objective to strengthen our leading position in core businesses and complement our "Connection" strategy in various industries, particularly in social and digital content, O2O and smart retail sectors. We also invest in transportation, FinTech, cloud and other sectors.

The fair value of our shareholdings[3] in listed investee companies (excluding subsidiaries) amounted to RMB982,835 million as at 31 December 2021.

[3] Including those held via special purpose vehicles, on an attributable basis.

As at 31 December 2021, we held approximately 529 million shares in JD.com, a company operating an eCommerce platform in China, representing approximately 17% of its total outstanding shares. The fair value of this investment was approximately RMB118.5 billion, which accounted for approximately 7% of the Group's total assets as at 31 December 2021. This investment was initially accounted for as investment in an associate and was then transferred to and accounted for as financial assets at fair value through other comprehensive income on 23 December 2021, following the resignation of the Group's representative on the board of JD.com, Mr Lau Chi Ping Martin, as a director of JD.com ("Board Representative's Resignation"). The cost of our investment in JD.com was approximately RMB20.9 billion. During the year ended 31 December 2021, the Group did not receive any dividends from JD.com, and there were deemed disposal gains of approximately RMB78.0 billion arising from the Board Representative's Resignation and unrealised gains of approximately RMB6.2 billion arising from changes in fair value under equity. The Group does not have nor does it exercise any managerial influence on JD.com after the Board Representative's Resignation and regards the investment in JD.com as a passive investment. Except JD.com, there was no other individual investment with a carrying value of 5% or more of the Group's total assets as at 31 December 2021.

On 23 December 2021, the Board resolved to declare the Distribution in Specie. The JD.com Shares to be distributed under the Distribution in Specie were presented as "Assets held for distribution" in the consolidated statement of financial position of the Group as at 31 December 2021. The share certificates of the JD.com Shares to be distributed are dispatched to the qualifying shareholders in March 2022. Immediately following the completion of the Distribution in Specie, the Company's beneficial ownership would be reduced to approximately 2.3% in JD.com (based on the total number of issued shares of JD.com as at 31 December 2021). Please refer to the announcements of the Company dated 23 December 2021 and 25 March 2022 for further details in relation to the Distribution in Specie. Notwithstanding the Distribution in Specie, the Group and JD.com will continue to maintain their business relationship in the ordinary course of business.

Save as disclosed herein, there were no material changes in our significant investment portfolio that need to be disclosed under paragraph 32 of Appendix 16 to the Listing Rules.

Return from our investment portfolio amounted to RMB120,305 million for the year ended 31 December 2021, with an increase of 123% compared to last year. Details of our return from investment portfolio are as follows:

Income of Principal Investment (Classified by nature of income)	**2021 RMB'Million**	2020 RMB'Million
Dividend income	**660**	1,765
Net gains on disposals and deemed disposals of investee companies	**118,051**	24,390
Net fair value gains	**47,717**	38,909
Impairment provision for investee companies, goodwill and other intangible assets from acquisitions	**(25,028)**	(11,422)
Share of (loss)/profit of associates and joint ventures, net	**(16,444)**	3,672
Amortisation of intangible assets resulting from acquisitions	**(4,651)**	(3,299)

We continue to closely monitor the performance of our investment portfolio and strategically make investments, M&A, and explore opportunities in monetising some of the existing investments if appropriate opportunities in the market arise.

LIQUIDITY AND FINANCIAL RESOURCES

Our cash and debt positions as at 31 December 2021 and 30 September 2021 were as follows:

	Audited 31 December 2021	Unaudited 30 September 2021
	(RMB in millions)	
Cash and cash equivalents	**167,966**	170,873
Term deposits and others	**113,320**	118,609
	281,286	289,482
Borrowings	**(155,939)**	(167,551)
Notes payable	**(145,590)**	(148,077)
Net debt	**(20,243)**	(26,146)

As at 31 December 2021, the Group had net debt of RMB20.2 billion, compared to net debt of RMB26.1 billion as at 30 September 2021. The sequential improvement was mainly due to free cash flow generation and on-market divestitures of certain listed securities, partly offset by our strategic investments in other companies.

For the fourth quarter of 2021, the Group had free cash flow of RMB33.5 billion. This was a result of net cash flow generated from operating activities of RMB51.3 billion, offset by payments for capital expenditures of RMB7.5 billion, payments for media content of RMB8.8 billion, and payments for lease liabilities of RMB1.5 billion.

As at 31 December 2021, bank balances and cash held at banks of the Group were mainly denominated in RMB. The Group considers that any reasonable changes in foreign exchange rates of currencies against major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currencies are considered to be not significant.

As at 31 December 2021, the Group's total debts comprised borrowings and notes payable. Particulars of the Group's borrowings and notes payable are set out in Note 36 and Note 37 to the consolidated financial statements respectively.

The Group has floating rate debts, linked to USD LIBOR, including borrowings and senior notes, whose cash flows are hedged by using interest rate swaps. The effects of the interest rate swaps on the Group's financial position and performance are set out in Note 3.1 to the consolidated financial statements.

The Group assesses its creditworthiness based on its business and financial risk profile and monitors its capital by regularly reviewing its debts to adjusted EBITDA ratio, being the measure of the Group's ability to pay off all of its debts which in turn reflects the Group's financial health and liquidity position. Details are set out in Note 3.2 to the consolidated financial statements.

The Group had no material contingent liabilities outstanding as at 31 December 2021.

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in Note 48 to the consolidated financial statements.

The analysis of the Group's revenues and contribution to results by business segments and the Group's revenues by geographical area of operations is set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 170 of this annual report.

The Board has recommended the payment of a final dividend of HKD1.60 per share for the year ended 31 December 2021. The dividend is expected to be payable on 6 June 2022 to the shareholders whose names appear on the register of members of the Company on 25 May 2022. The total final dividend proposed for the year is HKD1.60 per share.

On 23 December 2021, the Board resolved to declare a special interim dividend in the form of a distribution in specie of approximately 457 million Class A ordinary shares of JD.com indirectly held by the Company to the shareholders whose names appeared on the register of members of the Company on 25 January 2022 in proportion to their then respective shareholdings in the Company on the basis of 1 Class A ordinary share of JD.com for every 21 Shares held by the shareholders, being rounded down to the nearest whole number of Class A ordinary shares of JD.com.

RESERVES

The Company may pay dividends out of share premium, retained earnings and any other reserves provided that immediately following the payment of such dividends, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2021, the Company had distributable reserves amounting to RMB66,701 million (2020: RMB45,952 million).

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 174 to 177, Note 33, Note 34 and Note 46 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

BUSINESS REVIEW AND DIVIDEND

A fair review of the business of the Group, comprising a discussion and analysis of the Group's performance during the year, an indication of likely future development in the business of the Group and the proposed dividend for the year ended 31 December 2021 are set out in the "Chairman's Statement" on pages 4 to 8 of this annual report. Particulars of important events affecting the Group that have occurred since the end of the financial year 2021 are set out in Note 47 to the consolidated financial statements. An analysis using financial key performance indicators is set out in the "Management Discussion and Analysis" on pages 9 to 29 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are set out in the "Environmental, Social and Governance Report" on pages 110 to 159 of this annual report. Details regarding the Group's compliance with the relevant laws and regulations which have a significant impact on the Group are also set out in the "Environmental, Social and Governance Report" on pages 110 to 159 and the "Corporate Governance Report" on pages 77 to 109 as well as on page 74 of this annual report. A description of the principal risks and uncertainties facing the Group is set out in the "Corporate Governance Report" on pages 77 to 109 of this annual report. All such discussions form part of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 33 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2021 are set out in Note 48 to the consolidated financial statements.

BORROWINGS AND NOTES PAYABLE

Particulars of the Group's borrowings and notes payable are set out in Note 36 and Note 37 to the consolidated financial statements respectively.

DONATION

The donation made by the Group in the year was RMB2,050 million.

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 3 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2021, the Company repurchased 5,581,800 Shares on the Stock Exchange for an aggregate consideration of approximately HKD2,598.8 million before expenses. The repurchased Shares were subsequently cancelled. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the Shares repurchased are as follows:

Month of purchase in 2021	No. of Shares purchased	Purchase consideration per Share Highest price paid HKD	 Lowest price paid HKD	Aggregate consideration paid HKD
August	1,332,600	478.20	412.60	596,186,676
September	4,249,200	516.00	443.40	2,002,589,555
Total:	5,581,800			2,598,776,231

Save as disclosed above and in Note 33 to the consolidated financial statements, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

ISSUANCE OF DEBT SECURITIES

In April 2021, the Company issued four tranches of senior notes with an aggregate principal amount of USD4.15 billion under the Global Medium Term Note Programme for the Company's general corporate purposes.

Details of the issuance of debt securities are set out in Note 37 to the consolidated financial statements.

USE OF PROCEEDS FROM IPO AND FPO OF NON WHOLLY-OWNED SUBSIDIARIES

The use of proceeds from the IPO and FPO of TME, China Literature and HUYA, our non wholly-owned subsidiaries, are set out below:

TME

The American depositary shares of TME were listed on the New York Stock Exchange on 12 December 2018 and the net proceeds raised by TME during its IPO were approximately USD509 million.

As at 31 December 2021, TME had used all net proceeds from its IPO in the manner set out in its IPO prospectus for content acquisition, strategic investments, and other operating and investment purposes.

China Literature

The shares of China Literature were listed on the Stock Exchange on 8 November 2017 and the net proceeds raised by China Literature during its IPO were approximately HKD7,235 million (equivalent to approximately RMB6,145 million).

As at 31 December 2021, China Literature had fully utilised all net proceeds from its IPO.

HUYA

The American depositary shares of HUYA were listed on the New York Stock Exchange on 11 May 2018 and the net proceeds raised by HUYA during its IPO were approximately USD190 million. The net proceeds raised by HUYA in its FPO launched in April 2019 were approximately USD314 million.

As at 31 December 2021, HUYA had used all net proceeds from its IPO and USD29.6 million of the net proceeds from its FPO for investing in overseas expansion and for general corporate purposes.

The remaining balance of the net proceeds was placed with banks. HUYA will apply the remaining net proceeds in the manner as set out in its FPO prospectus.

SHARE OPTION SCHEMES

The Company has adopted five share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV. The Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III expired on 31 December 2011, 23 March 2014, 16 May 2017 and 13 May 2019 respectively. In respect of the Post-IPO Option Scheme IV, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein.

As at 31 December 2021, there were a total of 23,496,825 outstanding share options granted to a director of the Company, details of which are as follows:

Name of director	Date of grant	Number of share options As at 1 January 2021	Granted during the year	Exercised during the year	As at 31 December 2021	Exercise price HKD (Note 4)	Exercise period
Lau Chi Ping Martin	21 March 2016	3,750,000	–	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 1)
	24 March 2017	5,250,000	–	–	5,250,000	225.44	24 March 2018 to 23 March 2024 (Note 1)
	9 April 2018	3,215,800	–	–	3,215,800	410.00	9 April 2019 to 8 April 2025 (Note 1)
	4 April 2019	3,506,580	–	–	3,506,580	376.00	4 April 2020 to 3 April 2026 (Note 1)
	20 March 2020	4,399,815	–	–	4,399,815	359.60	20 March 2021 to 19 March 2027 (Note 1)
	30 March 2021	–	3,374,630 (Note 2)	–	3,374,630	618.00	30 March 2022 to 29 March 2028 (Note 1)
	Total:	20,122,195	3,374,630	–	23,496,825		

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options shall be vested and can be exercised 1 year after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.

2. The closing price immediately before the date on which the options were granted on 30 March 2021 was HKD612 per Share, which was adjusted to HKD594.008 per Share on the Ex-dividend Date. Out of these 3,374,630 options, 843,657 options which would be exercisable during the period between 30 March 2022 and 29 March 2028 were voluntarily waived by Mr Lau in February 2022.

3. No options granted to the director were exercised, cancelled or lapsed during the year.

4. As a result of the Distribution in Specie, pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, adjustments had been made to the exercise price of the share options as shown above which remained outstanding as at the Ex-dividend Date. Please refer to the announcement of the Company dated 14 March 2022 for details.

Details of movements of share options granted to employees of the Group (apart from director(s) of the Company) during the year ended 31 December 2021 are as follows:

	Number of share options						
Date of grant	As at 1 January 2021	Granted during the year	Exercised during the year (Note 15)	Lapsed/ forfeited during the year	As at 31 December 2021	Exercise price HKD (Note 16)	Exercise period
10 Jul 2014	319,988	–	309,050	10,938	–	124.30	10 Jul 2015 to 9 Jul 2021 (Note 3)
12 Dec 2014	40,350	–	40,350	–	–	116.40	12 Dec 2016 to 11 Dec 2021 (Note 4)
2 Apr 2015	215,000	–	35,000	–	180,000	149.80	2 Apr 2016 to 1 Apr 2022 (Note 3)
10 Jul 2015	404,820	–	108,369	–	296,451	148.90	10 Jul 2016 to 9 Jul 2022 (Note 3)
21 Mar 2016	5,590,000	–	375,000	–	5,215,000	158.10	21 Mar 2017 to 20 Mar 2023 (Note 3)
6 Jul 2016	762,361	–	185,220	–	577,141	174.86	6 Jul 2017 to 5 Jul 2023 (Note 3)
24 Mar 2017	942,365	–	115,715	–	826,650	225.44	24 Mar 2018 to 23 Mar 2024 (Note 1)
24 Mar 2017	20,160,250	–	1,109,375	–	19,050,875	225.44	24 Mar 2018 to 23 Mar 2024 (Note 3)
10 Jul 2017	4,469	–	–	–	4,469	272.36	10 Jul 2018 to 9 Jul 2024 (Note 2)
10 Jul 2017	6,144,941	–	1,407,612	39,243	4,698,086	272.36	10 Jul 2018 to 9 Jul 2024 (Note 3)
10 Jul 2017	18,446	–	4,960	–	13,486	272.36	10 Jul 2019 to 9 Jul 2024 (Note 4)
23 Nov 2017	71,190	–	–	–	71,190	419.60	23 Nov 2018 to 22 Nov 2024 (Note 2)
16 Jan 2018	144,050	–	12,000	–	132,050	444.20	16 Jan 2019 to 15 Jan 2025 (Note 2)
9 Apr 2018	1,948,915	–	75,840	–	1,873,075	410.00	9 Apr 2019 to 8 Apr 2025 (Note 1)
9 Apr 2018	191,555	–	–	–	191,555	410.00	9 Apr 2019 to 8 Apr 2025 (Note 2)
9 Apr 2018	16,631,126	–	11,367	–	16,619,759	410.00	9 Apr 2019 to 8 Apr 2025 (Note 3)
24 May 2018	26,390	–	–	–	26,390	407.00	24 May 2019 to 23 May 2025 (Note 2)

Date of grant	Number of share options: As at 1 January 2021	Granted during the year	Exercised during the year (Note 15)	Lapsed/ forfeited during the year	As at 31 December 2021	Exercise price HKD (Note 16)	Exercise period
22 Jun 2018	13,055	–	–	–	13,055	403.16	22 Jun 2019 to 21 Jun 2025 (Note 1)
22 Jun 2018	70,525	–	–	–	70,525	403.16	22 Jun 2019 to 21 Jun 2025 (Note 2)
6 Jul 2018	4,093,568	–	603,278	108,973	3,381,317	386.60	6 Jul 2019 to 5 Jul 2025 (Note 3)
6 Jul 2018	8,050	–	2,000	–	6,050	386.60	6 Jul 2020 to 5 Jul 2025 (Note 4)
6 Jul 2018	34,230	–	6,299	13,685	14,246	386.60	6 Jul 2021 to 5 Jul 2025 (Note 5)
24 Aug 2018	17,780	–	–	–	17,780	354.00	24 Aug 2019 to 23 Aug 2025 (Note 2)
24 Aug 2018	2,660	–	–	–	2,660	354.00	6 Jul 2019 to 23 Aug 2025 (Note 8)
4 Apr 2019	288,972	–	95,106	–	193,866	376.00	4 Apr 2020 to 3 Apr 2026 (Note 1)
4 Apr 2019	2,283,120	–	–	–	2,283,120	376.00	4 Apr 2020 to 3 Apr 2026 (Note 3)
4 Apr 2019	17,500,000	–	–	–	17,500,000	376.00	4 Apr 2024 to 3 Apr 2026 (Note 6)
8 Jul 2019	665	–	665	–	–	359.04	8 Jul 2020 to 7 Jul 2026 (Note 1)
8 Jul 2019	1,952,356	–	153,813	58,317	1,740,226	359.04	8 Jul 2020 to 7 Jul 2026 (Note 3)
8 Jul 2019	12,005	–	–	–	12,005	359.04	8 Jul 2021 to 7 Jul 2026 (Note 4)
23 Aug 2019	19,740	–	9,870	–	9,870	334.20	15 Aug 2020 to 22 Aug 2026 (Note 10)
23 Aug 2019	67,795	–	24,210	–	43,585	334.20	15 Aug 2020 to 22 Aug 2026 (Note 8)
23 Aug 2019	213,990	–	–	–	213,990	334.20	15 Aug 2020 to 22 Aug 2026 (Note 7)
2 Dec 2019	35,164	–	17,500	–	17,664	335.84	15 Nov 2020 to 1 Dec 2026 (Note 10)
8 Jan 2020	111,510	–	–	–	111,510	382.00	15 Dec 2020 to 7 Jan 2027 (Note 10)
8 Jan 2020	26,250	–	–	–	26,250	382.00	15 Jan 2021 to 7 Jan 2027 (Note 10)

Date of grant	As at 1 January 2021	Granted during the year	Exercised during the year (Note 15)	Lapsed/ forfeited during the year	As at 31 December 2021	Exercise price HKD (Note 16)	Exercise period
	Number of share options						
20 Mar 2020	390,530	–	90,848	4,629	295,053	359.60	21 Jan 2021 to 19 Mar 2027 (Note 9)
20 Mar 2020	2,584,820	–	24,329	–	2,560,491	359.60	20 Mar 2021 to 19 Mar 2027 (Note 8)
22 May 2020	49,840	–	–	–	49,840	429.52	15 May 2021 to 21 May 2027 (Note 10)
10 Jul 2020	1,428,182	–	16,539	51,172	1,360,471	546.50	5 Jul 2021 to 9 Jul 2027 (Note 8)
10 Jul 2020	3,507	–	–	–	3,507	546.50	5 Jul 2022 to 9 Jul 2027 (Note 8)
21 Aug 2020	24,465	–	–	–	24,465	518.00	15 Jul 2021 to 20 Aug 2027 (Note 9)
21 Aug 2020	10,535	–	–	–	10,535	518.00	15 Aug 2021 to 20 Aug 2027 (Note 10)
21 Aug 2020	4,964	–	–	–	4,964	518.00	15 Aug 2021 to 20 Aug 2027 (Note 8)
23 Nov 2020	110,280	–	–	1,572	108,708	586.00	15 Oct 2021 to 22 Nov 2027 (Note 9)
23 Nov 2020	8,855	–	–	–	8,855	586.00	15 Oct 2021 to 22 Nov 2027 (Note 10)
23 Nov 2020	16,825	–	–	–	16,825	586.00	15 Nov 2021 to 22 Nov 2027 (Note 8)
23 Dec 2020	14,028	–	–	–	14,028	575.80	15 Dec 2021 to 22 Dec 2027 (Note 9)
23 Dec 2020	105,207	–	–	–	105,207	575.80	15 Dec 2021 to 22 Dec 2027 (Note 10)
30 Mar 2021	–	1,078,655	–	15,745	1,062,910	618.00	8 Feb 2022 to 29 Mar 2028 (Note 9 and Note 11)
30 Mar 2021	–	100,335	–	–	100,335	618.00	8 Feb 2022 to 29 Mar 2028 (Note 8 and Note 11)
30 Mar 2021	–	4,333	–	–	4,333	618.00	15 Feb 2022 to 29 Mar 2028 (Note 10 and Note 11)
30 Mar 2021	–	3,049	–	–	3,049	618.00	15 Feb 2022 to 29 Mar 2028 (Note 8 and Note 11)

Date of grant	Number of share options: As at 1 January 2021	Granted during the year	Exercised during the year (Note 15)	Lapsed/ forfeited during the year	As at 31 December 2021	Exercise price HKD (Note 16)	Exercise period
30 Mar 2021	–	3,867,841	–	–	3,867,841	618.00	30 Mar 2022 to 29 Mar 2028 (Note 8 and Note 11)
10 Jun 2021	–	11,778	–	–	11,778	606.30	5 Jul 2021 to 9 Jun 2028 (Note 8 and Note 12)
10 Jun 2021	–	151,607	–	–	151,607	606.30	15 May 2022 to 9 Jun 2028 (Note 10 and Note 12)
14 Jul 2021	–	8,004,431	–	53,147	7,951,284	556.50	5 Jul 2022 to 13 Jul 2028 (Note 8 and Note 13)
16 Nov 2021	–	172,897	–	–	172,897	502.50	15 Sep 2022 to 15 Nov 2028 (Note 10 and Note 14)
16 Nov 2021	–	15,694	–	–	15,694	502.50	15 Oct 2022 to 15 Nov 2028 (Note 10 and Note 14)
Total:	85,119,689	13,410,620	4,834,315	357,421	93,338,573		

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 50% of the total options shall be vested and can be exercised 1 year after the grant date, and the remaining 50% of the total options will be vested and become exercisable in the subsequent year.

2. For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options shall be vested and can be exercised 1 year after the grant date, and each 33.33% (one-third) of the total options will be vested and become exercisable in each subsequent year.

3. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options shall be vested and can be exercised 1 year after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.

4. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options shall be vested and can be exercised 2 years after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.

5. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options shall be vested and can be exercised 3 years after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.

6. For options granted with exercisable date determined based on the grant date of options, 100% of the total options shall be vested and can be exercised 5 years after the grant date.

7. Subject to the satisfaction of certain conditions, the first 25% of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will be vested and become exercisable in each subsequent year.

8. The first 25% of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will be vested and become exercisable in each subsequent year.

9. The first 50% of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and the remaining 50% of the total options will be vested and become exercisable in the subsequent year.

10. The first 33.33% (one-third) of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and each 33.33% (one-third) of the total options will be vested and become exercisable in each subsequent year.

11. The closing price immediately before the date on which the options were granted on 30 March 2021 was HKD612 per Share, which was adjusted to HKD594.008 per Share on the Ex-dividend Date.

12. The closing price immediately before the date on which the options were granted on 10 June 2021 was HKD603 per Share, which was adjusted to HKD585.272 per Share on the Ex-dividend Date.

13. The closing price immediately before the date on which the options were granted on 14 July 2021 was HKD555.5 per Share, which was adjusted to HKD539.169 per Share on the Ex-dividend Date.

14. The closing price immediately before the date on which the options were granted on 16 November 2021 was HKD491.8 per Share, which was adjusted to HKD477.342 per Share on the Ex-dividend Date.

15. The weighted average closing price immediately before the date on which the options were exercised was HKD555.17 per Share, which was adjusted to HKD538.852 per Share on the Ex-dividend Date.

16. As a result of the Distribution in Specie, pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, adjustments had been made to the exercise price of the share options as shown above which remained outstanding as at the Ex-dividend Date. Please refer to the announcement of the Company dated 14 March 2022 for details.

17. No options granted to the employees of the Group were cancelled during the year.

Details of movements of share options granted to employees and certain external consultants of TME under the share option schemes adopted by TME, a subsidiary of the Company, during the year ended 31 December 2021 are as follows:

	Number of share options						
Date of grant	As at 1 January 2021	Granted during the year (Note 8)	Exercised during the year (Note 6)	Lapsed/ forfeited during the year	As at 31 December 2021	Exercise price USD	Exercise period
Employees							
1 Mar 2015	460,220	–	167,476	–	292,744	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	417,410	–	238,390	–	179,020	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
30 Mar 2015	700,882	–	297,598	–	403,284	0.27	30 Mar 2016 to 29 Mar 2025 (Note 1)
1 Oct 2015	125,100	–	61,340	–	63,760	0.27	1 Oct 2016 to 30 Sep 2025 (Note 1)
31 Dec 2015	599,658	–	403,642	–	196,016	0.27	31 Dec 2016 to 30 Dec 2025 (Note 1)
1 Mar 2016	107,889	–	57,144	–	50,745	0.27	1 Mar 2017 to 28 Feb 2026 (Note 1)
31 Mar 2016	98,938	–	26,304	–	72,634	0.27	31 Mar 2017 to 30 Mar 2026 (Note 1)
30 Jun 2016	81,638	–	81,638	–	–	0.000076	30 Jun 2017 to 29 Jun 2026 (Note 1)
30 Jun 2016	3,063,364	–	1,522,590	–	1,540,774	0.27	30 Jun 2017 to 29 Jun 2026 (Note 1)
16 Jun 2017	367,892	–	364,230	–	3,662	2.32	5 Jul 2017 to 15 Jun 2027 (Note 2)
16 Jun 2017	2,370,864	–	940,806	–	1,430,058	2.32	31 Mar 2018 to 15 Jun 2027 (Note 2)
31 Aug 2017	2,748,802	–	1,444,538	32,822	1,271,442	0.27	31 Aug 2018 to 30 Aug 2027 (Note 1)
20 Dec 2017	3,973,756	–	1,137,084	–	2,836,672	2.32	20 Dec 2018 to 19 Dec 2027 (Note 2)
16 Apr 2018	650,000	–	325,000	–	325,000	4.04	16 Apr 2019 to 15 Apr 2028 (Note 2)
17 Oct 2018	1,821,500	–	–	125,000	1,696,500	7.14	12 Jul 2019 to 16 Oct 2028 (Note 2)
17 Oct 2018	2,846,000	–	52,500	30,000	2,763,500	7.14	12 Jul 2020 to 16 Oct 2028 (Note 3)

Date of grant	As at 1 January 2021	Granted during the year (Note 8)	Exercised during the year (Note 6)	Lapsed/ forfeited during the year	As at 31 December 2021	Exercise price USD	Exercise period
			Number of share options				
Employees							
14 Jun 2019	1,637,002	–	15,384	–	1,621,618	7.05	14 Jun 2020 to 13 Jun 2029 (Note 2)
12 Jun 2020	4,285,570	–	81,198	110,540	4,093,832	6.20	12 Jun 2021 to 11 Jun 2030 (Note 2)
15 Aug 2020	208,790	–	–	–	208,790	7.56	15 Aug 2021 to 14 Aug 2030 (Note 4)
15 Oct 2020	71,930	–	–	–	71,930	7.17	15 Oct 2021 to 14 Oct 2030 (Note 4)
15 Dec 2020	169,080	–	–	–	169,080	9.53	15 Dec 2021 to 14 Dec 2030 (Note 4)
15 May 2021	–	1,262,240	–	–	1,262,240	7.61	15 May 2022 to 14 May 2031 (Note 2 and Note 5)
15 Jul 2021	–	148,130	–	–	148,130	6.37	15 Jul 2022 to 14 May 2031 (Note 4 and Note 5)
30 Jul 2021	–	6,570,868	–	243,126	6,327,742	5.29	30 Jul 2022 to 29 Jul 2031 (Note 2 and Note 5)
15 Sep 2021	–	254,952	–	–	254,952	4.24	15 Sep 2022 to 14 Sep 2031 (Note 4 and Note 5)
15 Dec 2021	–	307,792	–	–	307,792	3.32	15 Dec 2022 to 14 Dec 2031 (Note 4 and Note 5)
Sub-total:	26,806,285	8,543,982	7,216,862	541,488	27,591,917		
External consultants			(Note 7)				
1 Mar 2015	278,801	–	86,000	–	192,801	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	50,000	–	50,000	–	–	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
Sub-total:	328,801	–	136,000	–	192,801		
Total:	27,135,086	8,543,982	7,352,862	541,488	27,784,718		

Note:

1. The first 25% of the total options shall be vested and can be exercised 1 year after the commencement dates as specified in the relevant grant letters, and each 12.5% of the total options will be vested and become exercisable in each subsequent six months.

2. Subject to the satisfaction of certain conditions, the first 25% of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will be vested and become exercisable in each subsequent year.

3. The first 25% of the total options shall be vested and can be exercised 2 years after the commencement date as specified in the relevant grant letters, and each 25% of the total options will be vested and become exercisable in each subsequent year.

4. The first 33.33% (one-third) of the total options shall be vested and can be exercised 1 year after the commencement date as specified in the relevant grant letters, and each 33.33% (one-third) of the total options will be vested and become exercisable in each subsequent year.

5. The closing price immediately before the date on which the options were granted on 15 May 2021, 15 July 2021, 30 July 2021, 15 September 2021 and 15 December 2021, was USD7.61 per share, USD6.36 per share, USD5.32 per share, USD4.03 per share and USD3.19 per share, respectively.

6. The weighted average closing price immediately before the date on which the options were exercised by employees of TME was USD10.26 per share.

7. The weighted average closing price immediately before the date on which the options were exercised by certain external consultants of TME was USD9.96 per share.

8. The fair value of the options as at the respective grant date was determined using the "Enhanced FAS 123" binomial model which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2021 was USD2.65 per share. Other than the exercise price mentioned above, significant assumptions (which are subject to subjectivity and uncertainty) used to estimate the fair value of the options include risk-free rate (1.22% - 1.63%), dividend yield (nil) and expected volatility* (43.5% - 50%).

   * The expected volatility was estimated based on the historical volatility of the share prices of similar United States public companies for a period equal to the expected life preceding the grant date.

9. No options granted to employees and certain external consultants of TME were cancelled during the year.

Details of movements of share options granted to directors and employees of China Literature under the share option plan adopted by China Literature, a subsidiary of the Company, during the year ended 31 December 2021 are as follows:

		Number of share options					
Name of director	Date of grant	As at 1 January 2021	Granted during the year (Note 3)	Exercised during the year	As at 31 December 2021	Exercise price HKD	Exercise period
	Directors						
Cheng Wu	12 Jul 2021	–	2,900,000	–	2,900,000	82.85	12 Jul 2021 to 12 Jul 2031 (Note 1)
Hou Xiaonan	12 Jul 2021	–	2,175,000	–	2,175,000	82.85	12 Jul 2021 to 12 Jul 2031 (Note 1)
	Sub-total:	–	5,075,000	–	5,075,000		
	Employees						
	12 Jul 2021	–	949,914	–	949,914	82.85	12 Jul 2022 to 12 Jul 2032 (Note 2)
	5 Nov 2021	–	1,786,539	–	1,786,539	53.14	5 Nov 2022 to 5 Nov 2032 (Note 2)
	Sub-total:	–	2,736,453	–	2,736,453		
	Total:	–	7,811,453	–	7,811,453		

Note:

1. The first 25% of the total options shall be vested and can be exercised after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.
2. The first 25% of the total options shall be vested and can be exercised 1 year after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.
3. The closing price immediately before the date on which the options were granted on 12 July 2021 and 5 November 2021, was HKD80.65 per share and HKD53.25 per share, respectively.
4. The fair value of the options as at the respective grant date was determined using the binomial model which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2021 was HKD20.26 per share. Other than the exercise price mentioned above, significant assumptions (which are subject to subjectivity and uncertainty) used to estimate the fair value of the options include risk-free rate (1.6%), dividend yield (nil) and expected volatility* (25%).

    * The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily closing price volatility of the shares of the comparative companies within an observation period which was commensurate with the maturity of the share options.

5. No options granted to directors and employees of China Literature were exercised, cancelled or lapsed during the year.

Details of movements of share options granted to employees of HUYA under the share option schemes adopted by HUYA, a subsidiary of the Company, during the year ended 31 December 2021 are as follows:

	Number of share options						
Date of grant	**As at 1 January 2021**	**Granted during the year**	**Exercised during the year** (Note 1)	**Lapsed/ forfeited during the year**	**As at 31 December 2021**	**Exercise price USD**	**Exercise period**
9 Aug 2017	206,238	–	47,238	–	159,000	2.55	Till 9 Aug 2027 (Note 2)
9 Aug 2017	577,502	–	477,187	–	100,315	2.55	Till 9 Aug 2027 (Note 2)
1 Jul 2018	9,000	–	9,000	–	–	2.55	Till 1 Jul 2028 (Note 2)
Total:	792,740	–	533,425	–	259,315		

Note:

1. The weighted average closing price immediately before the date on which the options were exercised was USD12.98 per share.
2. All outstanding options were granted before HUYA became our subsidiary, and became vested and exercisable prior to or upon HUYA becoming our subsidiary.
3. No options granted to the employees of HUYA were cancelled during the year.

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Post-IPO Option Scheme II	Post-IPO Option Scheme IV
1.	Purposes	To recognise the contribution that certain individuals have made to the Group, to attract the best available personnel and to promote the success of the Group's business	
2.	Qualifying participants	Any employee (whether full time or part time), executive or officer, director (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity, which is any entity in which the Group holds an equity interest, and any consultant, adviser or agent of any member of the Board, who have contributed or will contribute to the growth and development of the Group or any invested entity	Any employee (whether full time or part time), executive or officer, director (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity, and any consultant, adviser or agent of any member of the Board, who have contributed or will contribute to the growth and development of the Group or any invested entity
3.	Maximum number of Shares	The maximum number of Shares in respect of which options may be granted under the Post-IPO Option Scheme II shall be 444,518,270 Shares (after the effect of the Share Subdivision), 5% of the relevant class of securities of the Company in issue as at 16 May 2007. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV, must not in aggregate exceed 30% of the issued shares of the Company from time to time (Note 1).	The maximum number of Shares in respect of which options may be granted under the Post-IPO Option Scheme IV shall be 379,099,339 Shares, 4% of the relevant class of securities of the Company in issue as at 17 May 2017. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme IV and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, must not in aggregate exceed 30% of the issued shares of the Company from time to time (Note 2).

	Details	Post-IPO Option Scheme II	Post-IPO Option Scheme IV
4.	Maximum entitlement of each participant	1% of the issued shares of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued shares of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option period	The option period is determined by the Board provided that it is not later than the last day of the 7-year period after the date of grant of the options. There is no minimum period for which an option must be held before it can be exercised.	The option period is determined by the Board provided that it is not later than the last day of the 7-year period after the date of grant of the options. There is no minimum period for which an option must be held before it can be exercised.
6.	Acceptance of offer	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.
7.	Exercise price	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share.
8.	Remaining life of the scheme	It expired on 16 May 2017.	It shall be valid and effective for a period of ten years commencing on 17 May 2017.

Note:

1. The Post-IPO Option Scheme II expired on 16 May 2017 and no further options will be granted under the scheme.

2. The total number of Shares available for issue under the Post-IPO Option Scheme IV is 289,802,600, which represents approximately 3.01% of the issued shares of the Company as at the date of this annual report.

A summary of the share option plan of TME, which was approved by the Company's shareholders on 17 May 2017 (the "TME Plan"), is set out below:

1.	Purpose	The purpose of the TME Plan is to motivate and reward its employees and other individuals who are expected to contribute significantly to the success of TME and its subsidiaries to perform at the highest level and to further the best interests of TME and its shareholders.
2.	Eligible participants	a) Any employee of TME or any other individual who provides services to TME or any of its affiliates as determined by the compensation committee of the board of directors of TME or such other committee as may be designated by the board of directors of TME shall be eligible to receive an award under the TME Plan. b) Holders of options and other types of awards granted by a company acquired by TME or with which TME combines with are eligible for grants of substitute awards under the TME Plan to the extent permitted under applicable regulations of any stock exchange on which TME is listed.
3.	Maximum number of shares	The maximum number of Class A ordinary shares of TME available for issuance (as refreshed by the Company's shareholders at the extraordinary general meeting held on 15 May 2019) upon exercise of options which may be granted under the TME Plan is 97,951,238, which represents 3.0% of the total issued shares of TME and 6.2% of the total Class A ordinary shares of TME as at the date of this annual report, respectively.
4.	Maximum entitlement of each participant	1% of the total outstanding shares of TME in issue from time to time within any 12-month period up to the date of the latest grant unless TME obtains the approval of the Company's shareholders.
5.	Option period	The term of each option shall be fixed by the compensation committee of the board of directors of TME or such other committee as may be designated by the board of directors of TME but shall not exceed 10 years from the date of grant of such option. There is no minimum period for which an option must be held before it can be exercised.
6.	Acceptance of offer	Options granted must generally be accepted within 28 days of the date of grant as specified in the award agreement. Grantees are not required to pay any premium for the acceptance of options.
7.	Exercise price	Exercise price shall be at least the higher of (i) the nominal value of a TME share; (ii) the fair market value of a TME share of such option on the date of grant; and (iii) the average fair market value of a TME share of such option for the five business days immediately preceding the date of grant.
8.	Remaining life of the scheme	No options shall be granted after 17 May 2027, being the tenth anniversary of the effective date, unless the TME Plan is otherwise terminated earlier.

Note:

The total number of options available for grant under the TME Plan is 33,295,600, which represents approximately 1.01% and 2.11% of the total issued shares and the total Class A ordinary shares of TME as at the date of this annual report, respectively.

A summary of the share option plan of China Literature, which took effect on 24 May 2021 (the "China Literature Plan"), is set out below:

1.	Purpose	The purpose of the China Literature Plan is to (i) provide incentives and rewards to the directors, employees, advisors, consultants and business partners of China Literature and its subsidiaries (the "China Literature Group") for their contributions to, and continuing efforts to promote the interest of, China Literature; (ii) recognise the contributions that the eligible participants have made to China Literature with an opportunity to acquire a proprietary interest in China Literature; (iii) encourage and retain such individuals for the continual operation and development of the China Literature Group; (iv) provide additional incentives for them to achieve performance goals; (v) attract suitable personnel for further development of the China Literature Group; (vi) motivate the participants to maximise the value of China Literature for the benefits of both the eligible participants and China Literature, with a view to achieving the objectives of increasing the value of the China Literature Group and aligning the interests of the eligible participants directly to the shareholders of China Literature through ownership of shares of China Literature.
2.	Eligible Participants	(i) any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the China Literature Group; and (ii) any individual or entity that is (as applicable) either (a) a business partner of ("Business Partner") of (1) any member of the China Literature Group or (2) any entity in which any member of the China Literature Group holds an equity interest, and shall, for the purpose of the China Literature Plan, exclude any members of the China Literature Group ("Invested Entity"), (b) a consultant, adviser or agent of any member of the China Literature Group, any Invested Entity or any Business Partner or (c) an employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any Invested Entity or any Business Partner who, in the sole opinion of the board of directors of China Literature, have contributed or will contribute to the growth and development of the China Literature Group or any Invested Entity.
3.	Scheme Limit, refreshment of Scheme Limit and maximum number of shares which may be issued	A total of 25,470,141 shares may be granted under the China Literature Plan, representing 2.5% of the issued share capital as at the date of the adoption of the China Literature Plan (the "Scheme Limit") and 2.5% of the issued share capital as at the date of this annual report, respectively, unless otherwise permitted by the Listing Rules or China Literature obtaining the approval of its shareholders to refresh the Scheme Limit. China Literature may seek the approval of its shareholders in general meeting to refresh the Scheme Limit such that the total number of shares which may be issued upon exercise of all options that may be granted under the China Literature Plan and any other option scheme/plan involving the issue or grant of options over shares or other securities by China Literature under the limit as refreshed shall not exceed 10% of the issued share capital of China Literature as at the date of approval of the refreshed limit.

3.	Scheme Limit, refreshment of Scheme Limit and maximum number of shares which may be issued (continued)	China Literature may seek the approval of its shareholders in general meeting to grant options which will result in the number of shares in respect of all the options granted under the China Literature Plan and all the options granted under any other option scheme exceeding 10% of the issued share capital of China Literature, provided that such options are granted only to participants specifically identified by China Literature before the approval of shareholders is sought. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the China Literature Plan and any other options granted and yet to be exercised under any other option scheme shall not exceed 30% of the issued share capital of China Literature from time to time.
4.	Maximum entitlement of each eligible participant	No option may be granted to any eligible participant which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the China Literature Plan (including exercised, cancelled and outstanding options) in the 12-month period up to and including the grant date of such new grant exceeding 1% in aggregate of the issued share capital of China Literature as at the grant date of such new grant. Any grant of further options above this limit shall be subject to the requirements provided under the Listing Rules.
5.	Vesting schedule and exercise period	The board of directors of China Literature or the chairman of China Literature (as the case may be) may specify the exercise period and the vesting schedule of the options in the grant letter. Unless the options have been withdrawn and cancelled or been forfeited in whole or in part, the grantee may exercise his rights under the China Literature Plan according to the vesting schedule set out in the relevant grant letter. The option must be exercised no more than 10 years from the grant date. There is no minimum period for which an option must be held before it can be exercised.
6.	Acceptance of offer	An amount of RMB1.00 must be paid by the grantee to China Literature upon acceptance of options within 3 days after such acceptance or other time as prescribed by China Literature, and such remittance shall not be refundable and shall not be deemed to be a part payment of the subscription price.
7.	Subscription price	The subscription price shall be a price determined by the board of directors of China Literature or the chairman of China Literature (as the case may be) and notified to grantee and will be the highest of: (a) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the grant date of the relevant options, which must be a business day; (b) an amount equivalent to the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the grant date of the relevant options; and (c) the nominal value per share on the grant date.
8.	Remaining life of the scheme	The China Literature Plan is valid and effective for a period of ten years commencing on 24 May 2021, unless the China Literature Plan is otherwise terminated earlier.

Note:

The total number of options available for grant under the China Literature Plan is 17,658,688, which represents approximately 1.73% of the issued shares of China Literature as at the date of this annual report.

MOVEMENTS IN THE SHARE OPTIONS

Details of the movements in the share options of the Company during the year are set out in Note 35 to the consolidated financial statements.

VALUATION OF SHARE OPTIONS

Details of the valuation of share options of the Company during the year are set out in Note 35 to the consolidated financial statements.

SHARE AWARD SCHEMES

The Company adopted the following three Share Award Schemes with major terms and details set out below:

		2007 Share Award Scheme	**2013 Share Award Scheme**	**2019 Share Award Scheme**
1.	Purpose	To recognise the contributions and to attract, motivate and retain eligible participants (including any director) of the Group		
2.	Duration and Termination	It shall be valid and effective for a period of 15 years from the Adoption Date I.	It shall be valid and effective unless and until being terminated on the earlier of: (i) the 15th anniversary date of the Adoption Date II; and (ii) such date of early termination as determined by the Board provided that such termination does not affect any subsisting rights of any Selected Participant.	It shall be valid and effective unless and until being terminated on the earlier of: (i) the 15th anniversary date of the Adoption Date III; and (ii) such date of early termination as determined by the Board provided that such termination does not affect any subsisting rights of any Selected Participant.
3.	Maximum number of Shares that can be awarded	2% of the issued shares of the Company as at the Adoption Date I (i.e. 178,776,160 Shares (after the effect of the Share Subdivision))	3% of the issued shares of the Company as at the Adoption Date II (i.e. 278,937,260 Shares (after the effect of the Share Subdivision and the Distribution in Specie))	2% of the issued shares of the Company as at the Adoption Date III (i.e. 191,047,317 Shares (after the effect of the Distribution in Specie))

		2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
4.	Maximum entitlement of each participant	1% of the issued shares of the Company as at the Adoption Date I (i.e. 89,388,080 Shares (after the effect of the Share Subdivision))	1% of the issued shares of the Company as at the Adoption Date II (i.e. 92,979,085 Shares (after the effect of the Share Subdivision and the Distribution in Specie))	1% of the issued shares of the Company as at the Adoption Date III (i.e. 95,523,658 Shares (after the effect of the Distribution in Specie))
5.	Operation	The Board shall select the Eligible Person(s) and determine the number of Shares to be awarded. The Board shall, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources into an account or to the Trustee to be held on trust for the relevant Selected Participant for the purchase and/or subscription of the Awarded Shares as soon as practicable after the Reference Date.	The Board may, from time to time, at its absolute discretion select any Eligible Person to be a Selected Participant and grant to such Selected Participant Awarded Shares. The Board may at any time at its discretion, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources or any subsidiary's resources into an account for the purchase and/or subscription of the Awarded Shares after the Grant Date.	The Board may, from time to time, at its absolute discretion select any Eligible Person to be a Selected Participant and grant to such Selected Participant Awarded Shares. The Board may at any time at its discretion, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources or any subsidiary's resources into an account for the purchase and/or subscription of the Awarded Shares after the Grant Date.

		2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
6.	Restrictions	No award shall be made by the Board and no instructions to acquire Shares and allot new Shares shall be given by the Board or the Trustee under the 2007 Share Award Scheme where any director is in possession of unpublished price-sensitive information in relation to the Group or where dealings by directors are prohibited under any code or requirement of the Listing Rules and all applicable laws from time to time.	No award may be made by the Board to any Selected Participant: (i) where the Company has information that must be disclosed under Rule 13.09 of the Listing Rules or where the Company reasonably believes there is inside information which must be disclosed under Part XIVA of the SFO, until such inside information has been published on the websites of the Stock Exchange and the Company; (ii) after any inside information in relation to the securities of the Company has occurred or has become the subject of a decision, until such inside information has been published; (iii) within the period commencing 60 days (in the case of yearly results), or 30 days (in the case of results for half-year, quarterly or other interim period) immediately preceding the earlier of (1) the date of a meeting of the Board (as such date is first notified to the Stock Exchange) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or	No award may be made by the Board to any Selected Participant: (i) where the Company has information that must be disclosed under Rule 13.09 of the Listing Rules or where the Company reasonably believes there is inside information which must be disclosed under Part XIVA of the SFO, until such inside information has been published on the websites of the Stock Exchange and the Company; (ii) after any inside information in relation to the securities of the Company has occurred or has become the subject of a decision, until such inside information has been published; (iii) within the period commencing 60 days (in the case of yearly results), or 30 days (in the case of results for half-year, quarterly or other interim period) immediately preceding the earlier of (1) the date of a meeting of the Board (as such date is first notified to the Stock Exchange) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or

		2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
6.	Restrictions (continued)		not required under the Listing Rules); and (2) the deadline for the Company to publish its quarterly, interim or annual results announcement for any such period, and ending on the date of such announcement; or (iv) in any other circumstances where dealings by Selected Participant (including directors) are prohibited under the Listing Rules, the SFO or any other applicable law or regulation or where the requisite approval from any applicable regulatory authorities has not been granted.	not required under the Listing Rules); and (2) the deadline for the Company to publish its quarterly, interim or annual results announcement for any such period, and ending on the date of such announcement; or (iv) in any other circumstances where dealings by Selected Participant (including directors) are prohibited under the Listing Rules, the SFO or any other applicable law or regulation or where the requisite approval from any applicable regulatory authorities has not been granted.
7.	Vesting and Lapse	Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of grant of the award. Vesting of the Shares will be conditional on the Selected Participant satisfying all vesting conditions specified by the Board at the time of making the award until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee.	The vesting of the Awarded Shares is subject to the Selected Participant remaining at all times after the Grant Date and on the date of vesting, an Eligible Person, subject to the rules of the 2013 Share Award Scheme. Subject to the satisfaction of all vesting conditions as prescribed in the 2013 Share Award Scheme, the Selected Participants will be entitled to receive the Awarded Shares.	The vesting of the Awarded Shares is subject to the Selected Participant remaining at all times after the Grant Date and on the date of vesting, an Eligible Person, subject to the rules of the 2019 Share Award Scheme. Subject to the satisfaction of all vesting conditions as prescribed in the 2019 Share Award Scheme, the Selected Participants will be entitled to receive the Awarded Shares.

		2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
8.	Voting Rights	The Trustee shall not exercise any voting rights in respect of any Shares held pursuant to the Trust Deed I (including but not limited to the Awarded Shares and any bonus Shares and scrip Shares derived therefrom).	The Trustee shall not exercise any voting rights in respect of any Shares held pursuant to the Trust Deed II or as nominee.	The Trustee shall not exercise any voting rights in respect of any Shares held pursuant to the Trust Deed III or as nominee.

The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

During the year, a total of 4,723,407 and 72,331,341 Awarded Shares were granted under the 2013 Share Award Scheme and the 2019 Share Award Scheme respectively, out of which 40,500 Awarded Shares were granted to the independent non-executive directors of the Company under the 2019 Share Award Scheme. Details of the movements in the Share Award Schemes during the year are set out in Note 35 to the consolidated financial statements.

During the year, a total of 20,047,558 Shares were issued to option holders who exercised their share options granted under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, and pursuant to the Share Award Schemes.

As at 31 December 2021, there were a total of 105,992 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

		Number of Awarded Shares				
Name of director	Date of grant	As at 1 January 2021	Granted during the year	Vested during the year	As at 31 December 2021 (Note)	Vesting period
Ian Charles Stone	24 March 2017	5,000	–	5,000	–	24 March 2018 to 24 March 2021
	9 April 2018	6,500	–	3,250	3,250	9 April 2019 to 9 April 2022
	4 April 2019	12,750	–	4,250	8,500	4 April 2020 to 4 April 2023
	20 March 2020	17,000	–	4,250	12,750	20 March 2021 to 20 March 2024
	30 March 2021	–	14,000	–	14,000	30 March 2022 to 30 March 2025
	Total:	41,250	14,000	16,750	38,500	
Li Dong Sheng	24 March 2017	2,500	–	2,500	–	24 March 2018 to 24 March 2021
	9 April 2018	3,250	–	1,625	1,625	9 April 2019 to 9 April 2022
	4 April 2019	6,375	–	2,125	4,250	4 April 2020 to 4 April 2023
	20 March 2020	8,500	–	2,125	6,375	20 March 2021 to 20 March 2024
	30 March 2021	–	7,000	–	7,000	30 March 2022 to 30 March 2025
	Total:	20,625	7,000	8,375	19,250	

Name of director	Date of grant	Number of Awarded Shares As at 1 January 2021	Granted during the year	Vested during the year	As at 31 December 2021 (Note)	Vesting period
Yang Siu Shun	24 March 2017	2,500	–	2,500	–	24 March 2018 to 24 March 2021
	9 April 2018	5,000	–	2,500	2,500	9 April 2019 to 9 April 2022
	4 April 2019	11,250	–	3,750	7,500	4 April 2020 to 4 April 2023
	20 March 2020	15,000	–	3,750	11,250	20 March 2021 to 20 March 2024
	30 March 2021	–	12,500	–	12,500	30 March 2022 to 30 March 2025
	Total:	33,750	12,500	12,500	33,750	
Ke Yang	23 August 2019	4,488	–	1,496	2,992	23 August 2020 to 23 August 2023
	20 March 2020	6,000	–	1,500	4,500	20 March 2021 to 20 March 2024
	30 March 2021	–	7,000	–	7,000	30 March 2022 to 30 March 2025
	Total:	10,488	7,000	2,996	14,492	
	Grand Total:	106,113	40,500	40,621	105,992	

Note:

As a result of the Distribution of Specie, pursuant to the scheme rules of the 2013 Share Award Scheme and the 2019 Share Award Scheme, adjustments had been made to the number of Shares subject to share awards which remained unvested as at the Ex-dividend Date. Please refer to the announcement of the Company dated 14 March 2022 for details.

Directors' Report

DIRECTORS AND SENIOR MANAGEMENT

The directors and senior management of the Company during the year and up to the date of this annual report were:

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Ian Charles Stone
Yang Siu Shun
Ke Yang
Iain Ferguson Bruce (retired with effect from 20 May 2021)

In accordance with Article 87 of the Articles of Association, Mr Li Dong Sheng and Mr Ian Charles Stone will retire at the 2022 AGM and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them independent.

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 50, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a deputy to the 13th National People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 28 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr Ma also serves as a director of certain subsidiaries of the Company.

Lau Chi Ping Martin, age 48, is an executive director and President of the Company. Mr Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, mergers and acquisitions and investor relations. In 2006, Mr Lau was promoted to President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an executive director of the Company. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science degree in Electrical Engineering from University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. Mr Lau is currently a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider, and Meituan, a leading eCommerce platform for services in China, both of these companies are publicly listed on the Stock Exchange. Mr Lau is also a director of Vipshop Holdings Limited, an online discount retailer company, TME, an online music entertainment platform in China, and DiDi Global Inc., a leading mobility technology platform in China, all of these companies are listed on the New York Stock Exchange. Mr Lau was a director of Leju Holdings Limited, an online-to-offline real estate services provider in China that is listed on the New York Stock Exchange, up to 18 August 2020, and JD.com, an online direct sales company in China that is listed on NASDAQ and the Stock Exchange, up to 23 December 2021. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company.

Jacobus Petrus (Koos) Bekker, age 69, has been a non-executive director since November 2012. Koos led the founding team of the M-Net/MultiChoice pay-television business in 1985. He was also a founder director of MTN in cellular telephony. Koos headed the MIH group in its international and Internet expansions until 1997, when he became chief executive of Naspers, which is listed on the Johannesburg Stock Exchange and London Stock Exchange. He serves on the boards of other companies within the group and associates, as well as other bodies. In April 2015, he became non-executive chair. On 14 August 2019, he was appointed as non-executive chair of Prosus N.V., which is listed on Euronext Amsterdam and on the Johannesburg Stock Exchange. Academic qualifications include BA Hons and honorary doctorate in commerce (Stellenbosch University), LLB (University of the Witwatersrand) and MBA (Columbia University, New York).

Charles St Leger Searle, age 58, has been a non-executive director since June 2001. Mr Searle is currently the Chief Executive Officer of Naspers Internet Listed Assets. He serves on the board of a number of companies associated with the Naspers Group, and was a director of VK Company Limited (formerly known as Mail.ru Group Limited) that is listed on the London Stock Exchange and the Moscow Exchange until his resignation on 4 March 2022. Mr Searle was a director of MakeMyTrip Limited that is listed on NASDAQ, up to 30 August 2019. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia and New Zealand. Mr Searle has more than 28 years of international experience in the telecommunications and Internet industries. Mr Searle also serves as a director of certain subsidiaries of the Company.

Li Dong Sheng, age 64, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Technology Group Corporation that is listed on the Shenzhen Stock Exchange, and the strategic development consultant of TCL Electronics Holdings Limited that is listed on the Stock Exchange, both of which produce consumer electronic products. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 27 years of experience in the information technology field. Mr Li was a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the Stock Exchange, up to 29 May 2020, and was the Chairman and an executive director of TCL Electronics Holdings Limited, up to 9 August 2021.

Ian Charles Stone, age 71, has been an independent non-executive director since April 2004. Mr Stone is currently an independent advisor on Technology, Media and Telecoms after retiring from PCCW in Hong Kong in 2011. His career in the last 32 years has been primarily in leading mobile telecoms businesses, and new wireless and Internet technology, during which time he held senior roles in PCCW, SmarTone, First Pacific, Hong Kong Telecom and CSL, as Chief Executive or at Director level, primarily in Hong Kong, and also in London and Manila. Since 2011, Mr Stone has provided telecoms advisory services to telecom companies and investors in Hong Kong (China), the Mainland of China, South East Asia and the Middle East and has more than 51 years of experience in the telecom and mobile industries. Mr Stone is also an independent director of Summit Healthcare Acquisition Corp. that is listed on NASDAQ. Mr Stone is a fellow member of The Hong Kong Institute of Directors.

Yang Siu Shun, age 66, has been an independent non-executive director since July 2016. Mr Yang is currently serving as a Member of the 13th National Committee of the Chinese People's Political Consultative Conference, a Justice of the Peace in Hong Kong, a Steward of the Hong Kong Jockey Club, and an independent non-executive director of Industrial and Commercial Bank of China Limited which is publicly listed on the Stock Exchange and the Shanghai Stock Exchange. Mr Yang retired from PricewaterhouseCoopers ("PwC") on 30 June 2015. Before his retirement, he served as the Chairman and Senior Partner of PwC Hong Kong, the Executive Chairman and Senior Partner of PwC China and Hong Kong, one of the five members of the Global Network Leadership Team of PwC and the PwC Asia Pacific Chairman. Mr Yang served as a Board Member and the Audit Committee Chairman of The Hang Seng University of Hong Kong (formerly known as Hang Seng Management College), up to 30 September 2018 and the Deputy Chairman of the Council of Hong Kong Metropolitan University ("HKMU") (formerly known as The Open University of Hong Kong), up to 19 June 2019. Mr Yang also served as a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, up to 31 August 2021. Mr Yang graduated from the London School of Economics and Political Science in 1978 and was awarded the degree of Honorary Doctor of Social Sciences by HKMU in 2019. Mr Yang is a Fellow Member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

Ke Yang, age 66, has been an independent non-executive director since August 2019. Professor Ke is currently the Director of Laboratory of Genetics of Peking University Cancer Hospital and an international member of the United States National Academy of Medicine. Professor Ke is also Vice-president of the Peking University Alumni Association, President of the Peking University Health Science Center Alumni Association, Vice-president of China Medical Women's Association, President of the Health Professional Education Committee of the Chinese Association of Higher Education, Vice-chairperson of the Steering Committee of Clinical Medicine of the Committee of Academic Degrees of the State Council, and Vice-president of Cancer Foundation of China. Professor Ke's research focus is on the upper gastrointestinal tumors, including the cloning of gastric cancer related genes and the functional study of such genes. Together with her team, she has also established the population cohort in esophageal cancer high incidence regions in China, studied the etiology of esophageal cancer, and evaluated the effects and economic efficacy of early screening of the disease. She has published more than 100 papers and had registered patents and been granted awards at national and provincial levels for technological and educational achievements. Professor Ke was a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference, an executive Vice-president of Peking University and of the Peking University Health Science Center (formerly known as Beijing Medical College), a member of the Committee of Academic Degrees of the State Council, a member of the Healthcare Reform Advisory Committee of the State Council, the Chairperson of the Working Committee for Graduate Medical and Pharmaceutical Education of the Office of Academic Degrees of the State Council, and Vice-president of the 24th and 25th Chinese Medical Association. Professor Ke graduated from the Peking University Health Science Center in 1982. From 1985 to 1988, Professor Ke worked at the National Cancer Institute of the National Institutes of Health of the United States as a postdoctoral fellow. Professor Ke is currently an independent non-executive director of Keymed Biosciences Inc. which is publicly listed on the Stock Exchange.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 50, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, and customer relations of the Company. Mr Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr Xu received a Bachelor of Science degree in Computer Science from Shenzhen University in 1993 and a Master of Science degree in Computer Science from Nanjing University in 1996. Mr Xu currently serves as a director or officer of certain subsidiaries of the Company.

Ren Yuxin, age 46, Chief Operating Officer and President of Platform & Content Group and Interactive Entertainment Group, joined the Company in 2000 and had served as the General Manager for the Value-Added Services Development Division and General Manager for the Interactive Entertainment Business Division. Since September 2005, Mr Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr Ren has been appointed as Chief Operating Officer and is now in charge of the overall operation of the Platform & Content Group and the Interactive Entertainment Group. Prior to joining the Company, Mr Ren worked at Huawei Technologies Co., Ltd. Mr Ren received a Bachelor of Science degree in Computer Science and Engineering from University of Electronic Science and Technology of China in 1998 and an EMBA degree from China Europe International Business School (CEIBS) in 2008.

Zhang Xiaolong, age 52, Senior Executive Vice President and President of Weixin Group, joined the Company in March 2005 and had served as the General Manager for the Guangzhou R&D Division and led the QQ Mail team to be the top mail service provider in China. Later he was promoted to Corporate Vice President and since September 2012, Mr Zhang has been appointed as Senior Vice President in charge of the product and team management of Weixin/WeChat and QQ Mail. He is also responsible for the management and review of major innovation projects. In May 2014, Mr Zhang was promoted to Senior Executive Vice President in charge of the Weixin Group. Prior to joining the Company, Mr Zhang developed Foxmail independently in 1997 as the first generation of Internet software developer in China. He joined Boda China as Corporate Vice President in 2000, responsible for corporate mail developing. Mr Zhang received a Master's degree in Telecommunications from Huazhong University of Science and Technology in 1994.

James Gordon Mitchell, age 48, Chief Strategy Officer and Senior Executive Vice President, joined the Company in 2011. He is responsible for various functions, including the Company's strategic planning and implementation, investor relations, mergers and acquisitions and investment activities. Prior to joining the Company, Mr Mitchell had worked in investment banking for 16 years. Most recently, Mr Mitchell was a managing director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analysed Internet, entertainment and media companies globally. Mr Mitchell received a degree from Oxford University and holds a Chartered Financial Analyst Certification. Mr Mitchell currently serves as a director of certain subsidiaries of the Company.

Tong Tao Sang, age 48, Senior Executive Vice President, President of Cloud and Smart Industries Group, is leading the Industrial Internet strategy and the enterprise businesses for Tencent. Mr Tong manages the security labs, the multi-media lab, and Youtu AI lab, and he is one of the co-chairs of Tencent's technology council. Mr Tong joined the Company as a technical architect in 2005, and had previously led QQ, Qzone, QQshow, and their advertising and value-added services. Mr Tong received a Bachelor of Science degree in Computer Engineering from University of Michigan, Ann Arbor and a Master of Science degree in Electrical Engineering from Stanford University. Mr Tong currently serves as a director of certain subsidiaries of the Company.

Lu Shan, age 47, Senior Executive Vice President and President of Technology and Engineering Group, joined the Company in 2000 and had served as the General Manager for the IM Product Division, Vice President for the Platform Research and Development System and Senior Vice President for the Operations Platform System. Since March 2008, Mr Lu has been in charge of management of the Operations Platform System of the Company. Since May 2012, Mr Lu has been in charge of management of the Technology and Engineering Group. Prior to joining the Company, he worked for Shenzhen Liming Network Systems Limited. Mr Lu received a Bachelor of Science degree in Computer Science and Technology from University of Science and Technology of China (USTC) in 1998. Mr Lu currently serves as a director or officer of certain subsidiaries of the Company.

David A M Wallerstein, age 47, Chief eXploration Officer and Senior Executive Vice President, joined the Company in 2001. He drives the Company's active participation in emerging technologies, business areas, and ideas, with a passion for contributing to a more resilient planet. Prior to joining the Company, Mr Wallerstein worked for Naspers in China. Mr Wallerstein received a Bachelor's degree from University of Washington and a Master's degree from UC Berkeley. Mr Wallerstein currently serves as a director of a subsidiary of the Company.

Ma Xiaoyi, age 48, Senior Vice President, joined the Company in 2007 and has been responsible for international publishing of Tencent Games, establishing and maintaining long-term business partnerships and cooperation for the Company since November 2008. Prior to joining the Company, Mr Ma served as the General Manager of the games division of OPTIC Communication Co., Ltd. Prior to that, Mr Ma worked as the General Manager in Shanghai EasyService Technology Development Ltd. Mr Ma graduated from Shanghai Jiaotong University in 1997, and received an EMBA degree from Fudan University in 2008. Mr Ma currently serves as a director of certain subsidiaries of the Company.

Lin Ching-Hua, age 49, Senior Vice President, joined the Company in 2013 and has been responsible for the exploration and development of the Company's Advertising and Smart Retail businesses. He also oversees strategic development of the Company and drives the Group's strategic upgrade and business collaboration. In 2020, Mr Lin was promoted to Senior Vice President. Prior to joining the Company, Mr Lin was a partner at McKinsey & Company and the managing partner of its Taiwan office. Mr Lin received a Bachelor of Sociology degree from National Taiwan University and a Master of Business Administration degree from Harvard University. Mr Lin currently serves as a director or officer of certain subsidiaries of the Company.

John Shek Hon Lo, age 53, Chief Financial Officer and Senior Vice President, joined the Company in 2004 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr Lo worked at PricewaterhouseCoopers. He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants, a Fellow of the Chartered Institute of Management Accountants and a Member of the Association of Chartered Certified Accountants. Mr Lo received a Bachelor of Business degree in Accounting from Curtin University and an EMBA degree from Kellogg Graduate School of Management, Northwestern University and The Hong Kong University of Science and Technology. Mr Lo currently serves as a director of a subsidiary of the Company.

Guo Kaitian, age 49, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of legal affairs, administration, infrastructure, procurement, public strategy, information security and corporate social responsibility. Mr Guo received a Bachelor of Law degree from Zhongnan University of Economics and Law in 1996. Mr Guo currently serves as a director of a subsidiary of the Company.

Xi Dan, age 46, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's talent development and functional management since May 2008. Prior to joining the Company, Mr Xi was responsible for HR management in ZTE Corporation and has more than 26 years of experience in IT and Internet industries. Mr Xi received a Bachelor of Science degree in Applied Computer Science from Shenzhen University in 1996 and an MBA degree from Tsinghua University in 2005. Mr Xi currently serves as a director or officer of certain subsidiaries of the Company.

Yeung Kwok On, age 60, Senior Management Adviser, joined the Company in 2008. He supports and facilitates organisational innovation and leadership development within the Company and its key strategic partners. Mr Yeung also serves as Dean of TencentX, a corporate learning platform that has approximately 500 entrepreneur alumni. Prior to joining the Company, Mr Yeung, as a professor, had taught at University of Michigan and China Europe International Business School and also served as Chief HR Officer of Acer Group from 1998 to 2002. Mr Yeung received a Bachelor's and a Master's degree from The University of Hong Kong and a Doctoral degree from University of Michigan.

DIRECTORS' SERVICE CONTRACTS

Each of Mr Ma Huateng and Mr Lau Chi Ping Martin has entered into a service contract with the Company for a term of three years from 1 January 2022 to 31 December 2024. The term of their service contracts can be renewed upon expiry and the Company may terminate their service contracts by three months' written notice.

None of the directors who are proposed for re-election at the 2022 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this annual report, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company or an entity connected with a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors of the Company is currently in force and was in force throughout the financial year. The Company has taken out and maintained directors and officers liability insurance which provides appropriate cover for, among others, directors of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, neither the Company nor any of its subsidiaries was a party to any arrangements to enable directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the year or at the end of the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2021, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(A) Long position in the shares and underlying shares of the Company

Name of director	Nature of interest	Number of shares/ underlying shares held	Approximate % of shareholding (Note 7)
Ma Huateng	Corporate (Note 1)	804,859,700	8.38%
Lau Chi Ping Martin	Personal*	56,064,651 (Note 2)	0.58%
Li Dong Sheng	Personal*	36,375 (Note 3)	0.0004%
Ian Charles Stone	Personal*	76,000	0.003%
	Family+	240,000	
		316,000 (Note 4)	
Yang Siu Shun	Personal*	38,974 (Note 5)	0.0004%
Ke Yang	Personal*	18,984 (Note 6)	0.0002%

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by Mr Ma Huateng, holds 709,859,700 Shares directly and 95,000,000 Shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.

2. The interest comprises 32,567,826 Shares and 23,496,825 underlying Shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV. Details of the share options granted to this director are set out above under "Share Option Schemes".

3. The interest comprises 17,125 Shares and 19,250 underlying Shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".

4. The interest comprises 277,500 Shares and 38,500 underlying Shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".

5. The interest comprises 5,224 Shares and 33,750 underlying Shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".

6. The interest comprises 4,492 Shares and 14,492 underlying Shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme and the 2019 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".

7. As at 31 December 2021, the total number of issued shares of the Company was 9,608,378,469.

* Interests of beneficial owner

\+ Interests of spouse or child under 18 as beneficial owner

(B) Long position in the shares of associated corporations of the Company

Name of director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Approximate % of shareholding
Ma Huateng	Tencent Computer	Personal	RMB35,285,705 (registered capital)	54.29%
	Shiji Kaixuan	Personal	RMB5,971,427 (registered capital)	54.29%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2021.

CONNECTED TRANSACTIONS

Reference is made to the waiver granted by the Stock Exchange regarding the compliance with the applicable disclosure, reporting and shareholders' approval requirements under Chapter 14A of the Listing Rules when the Company was listed in June 2004.

The reasons for using Structure Contracts

Current PRC laws and regulations limit foreign investment in businesses providing value-added telecommunications services in China. As foreign-invested enterprises, the WFOEs do not have licences to provide Internet content or information services and other telecommunications value-added services. Accordingly, the value-added telecommunications business of the Group has been conducted through Tencent Computer, Shiji Kaixuan, Wang Dian, Beijing BIZCOM, Beijing Starsinhand and Shenzhen Tencent Tianyou (Wang Dian, Beijing BIZCOM, Beijing Starsinhand and Shenzhen Tencent Tianyou are referred herein as the "New OPCOs", and together with Tencent Computer and Shiji Kaixuan, the "OPCOs") by themselves or through their subsidiaries under the Structure Contracts (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company). As a result of the Structure Contracts, the Group is able to recognise and receive the economic benefit of the business and operations of the OPCOs. The Structure Contracts are also designed to provide the Company with effective control over and (to the extent permitted by PRC law) the right to acquire the equity interests in and/or assets of the OPCOs.

For a summary of the major terms of the Structure Contracts, please refer to the sections headed "Our History and Structure" and "Structure Contracts" in the IPO prospectus. During the year ended 31 December 2021, there was no material change in the Structure Contracts and/or the circumstances under which they were adopted, and none of the Structure Contracts has been unwound as none of the restrictions that led to the adoption of Structure Contracts has been removed.

Requirements related to Structure Contracts (other than relevant foreign ownership restrictions) as at 31 December 2021

Requirements related to Structure Contracts (other than relevant foreign ownership restrictions) include the Notice on Further Strengthening the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (關於貫徹落實國務院《"三定"規定》和中央編辦有關解釋,進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知) (the "Circular 13") jointly issued by PRC General Administration of Press and Publication, the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications in September 2009, which provides that foreign investors are not permitted to invest in online game-operating businesses in the PRC via wholly-owned, equity joint venture or co-operative joint venture investments and further expressly prohibits foreign investors from gaining control over or participating in domestic online game operators through indirect ways such as establishing other joint venture companies or entering into contractual or technical arrangements with the Chinese licence holders.

However, the Circular 13 does not provide any interpretation of the term "foreign investors" or make a distinction between foreign online game companies and companies under a corporate structure similar to the Group. Thus, it is unclear whether the State General Administration of Press, Publication, Radio, Film and Television will deem the Group's structure and operations to be in violation of these provisions.

In the view of the Company's PRC legal advisers, the arrangement of the Structure Contracts does not violate applicable existing PRC laws and regulations as the Company indirectly operates the value-added telecommunication service business, online and mobile games, online advertising and other Internet and wireless portals in the PRC through OPCOs that hold the necessary licences for the existing lines of businesses.

However, the Company's PRC legal advisers also advised that there are substantial uncertainties regarding the interpretation and application of the currently applicable PRC laws, rules and regulations. Accordingly, the PRC regulatory authorities and PRC courts may in the future take a view that is contrary to the position of the Company's PRC legal advisers concerning the Structure Contracts.

It is uncertain whether any new PRC laws, rules or regulations relating to Structure Contracts will be adopted or if adopted, what they would provide. On 15 March 2019, the Standing Committee of National People's Congress promulgated Law of Foreign Investment which became effective on 1 January 2020 (the "2019 Law of Foreign Investment"). While the 2019 Law of Foreign Investment does not define Structure Contracts as a form of foreign investment explicitly, the Company cannot assure that future laws and regulations will not provide for Structure Contracts as a form of foreign investment. Therefore, there can be no assurance that the Company's control over OPCOs through Structure Contracts will not be deemed as foreign investment in the future. If the Structure Contracts were to be deemed as a method of foreign investment under any future laws, regulations and rules, and if any of the Company's business operations were to fall under the "negative list" for foreign investment, the Company would need to take further actions in order to comply with these laws, regulations and rules, which may materially and adversely affect its current corporate structure, business, financial condition and results of operations.

Particulars of the OPCOs

Set out below is the registered owners and business activities of the OPCOs which had entered into transactions with the Group during the year ended 31 December 2021:

Name of the operating companies	Registered owners as at 31 December 2021	Business activities
Tencent Computer	54.29% by Ma Huateng 22.85% by Zhang Zhidong 11.43% by Xu Chenye 11.43% by Chen Yidan	Provision of value-added services and Internet advertisement services in the PRC
Shiji Kaixuan	54.29% by Ma Huateng 22.85% by Zhang Zhidong 11.43% by Xu Chenye 11.43% by Chen Yidan	Provision of Internet advertisement services in the PRC
Wang Dian	Shiji Kaixuan	Provision of value-added services in the PRC
Beijing BIZCOM	Tencent Computer	Provision of value-added services in the PRC
Beijing Starsinhand	Shiji Kaixuan	Provision of value-added services in the PRC
Shenzhen Tencent Tianyou*	Tencent Enterprise Management	Provision of value-added services in the PRC

* Ultimate registered owners being Mr Ma Huateng and Mr Xu Chenye, both being founders, and a management team member, each ultimately interested in 60%, 35% and 5% respectively of Tencent Enterprise Management.

The above OPCOs are significant to the Group as they hold relevant licences to provide Internet information services and other value-added telecommunications services. The aggregate gross revenue and net asset value of the above OPCOs that are subject to the Structure Contracts amounted to approximately RMB264 billion for the year ended 31 December 2021 and approximately RMB46 billion as at 31 December 2021 respectively.

Review of the transactions carried out under the Structure Contracts during the financial year

The Company's independent non-executive directors had reviewed the Structure Contracts and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts and, had been operated so as to transfer by the date of this annual report the Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) of each of the OPCOs as at 31 December 2021 to Tencent Technology, Cyber Tianjin (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus of the Company), Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network, Guian New Area Tencent Cyber, Cyber Shenzhen and Wuhan Tencent Information.

The Company's independent non-executive directors had also confirmed that no dividends or other distributions had been made by the OPCOs to the holders of their equity interests and the terms of any new Structure Contracts entered into, renewed and/or cloned during the relevant financial period are fair and reasonable so far as the Group was concerned and in the interests of the Company's shareholders as a whole. To this extent, similar Structure Contracts were entered into relating to the New OPCOs.

The Auditor had carried out procedures on the transactions conducted pursuant to the Structure Contracts and had provided a letter to the Board confirming that such transactions had been approved by the Board and had been entered into, in all material respects, in accordance with the relevant Structure Contracts and had been operated so as to transfer the Surplus Cash of the OPCOs as at 31 December 2021 to the WFOEs and that no dividends or other distributions had been made by the OPCOs to the holders of their equity interests.

Transactions carried out during the year ended 31 December 2021, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

1. Pursuant to the TCS CFC, the parties shall co-operate in the provision of communications services. Tencent Technology and its affiliates shall allow Tencent Computer to use its and its affiliates' assets and to provide services to Tencent Computer. Tencent Computer shall transfer all of its Surplus Cash to Tencent Technology and its affiliates as consideration. The parties also established the TCS Co-operation Committee according to this agreement. During the year, revenue sharing amounting to approximately RMB132,913 million, RMB2,746 million, RMB17,476 million, RMB47,796 million, RMB17,883 million, RMB1,738 million, RMB2,857 million, RMB2,635 million, RMB2,931 million, RMB239 million, RMB1,058 million, RMB107 million, RMB1,042 million and RMB402 million were paid or payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu, Tencent Shanghai, Tencent Wuhan, Chongqing Tencent Information, Shenzhen Tencent Information, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network, Guian New Area Tencent Cyber, Cyber Shenzhen and Wuhan Tencent Information respectively.

2. Pursuant to the SKT CFC, the parties shall co-operate in the provision of communications services. Cyber Tianjin and its affiliates shall allow Shiji Kaixuan to use its and its affiliates' assets and to provide services to Shiji Kaixuan. Shiji Kaixuan shall transfer all of its Surplus Cash to Cyber Tianjin and its affiliates as consideration. The parties also established the SKT Co-operation Committee according to this agreement. During the year, no services were transacted under such arrangements, save as disclosed elsewhere in this section.

3. Pursuant to the amended and restated IP transfer agreement dated 28 February 2004 entered into between Tencent Technology and Tencent Computer, Tencent Computer shall assign to Tencent Technology its principal present and future IP rights, free from encumbrances (except for licences granted in the ordinary course of Tencent Computer's business) in consideration of Tencent Technology's undertaking to provide certain technology and information services to Tencent Computer. During the year, no IP transfer was transacted under such arrangements, save as disclosed elsewhere in this section.

4. Pursuant to the IP transfer agreement dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan, Shiji Kaixuan shall assign to Cyber Tianjin its principal present and future IP rights, free from encumbrance (except for licences granted in the ordinary course of Shiji Kaixuan's business) in consideration of Cyber Tianjin's undertaking to provide certain technology and information services to Shiji Kaixuan. During the year, no IP transfer was transacted under such arrangements, save as disclosed elsewhere in this section.

5. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive licence to use specified domain names against payment of annual royalties determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no domain name licence was transacted under such arrangements, save as disclosed elsewhere in this section.

6. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant to Shiji Kaixuan a non-exclusive licence to use specified domain names against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no domain name licence was transacted under such arrangements, save as disclosed elsewhere in this section.

7. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Tencent Computer's annual revenues (which may be adjusted pursuant to the agreement or the TCS CFC). During the year, no trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.

8. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant to Shiji Kaixuan a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.

9. Pursuant to the information consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Tencent Computer, Tencent Technology shall provide specified information consultancy services to Tencent Computer against payment of an annual consultancy service fee determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

10. Pursuant to the technical consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Shiji Kaixuan, Tencent Technology shall provide specified technical consultancy services to Shiji Kaixuan against payment of an annual consultancy service fee determined by the SKT Co-operation Committee within a range of percentages of Shiji Kaixuan's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

11. Pursuant to the co-operation framework agreement entered into between each of the New OPCOs and one of the WFOEs, the parties shall cooperate in the provision of communications services. For each agreement, the WFOEs shall allow the New OPCOs to use its and its affiliates' assets and provide services to the New OPCOs. The New OPCOs shall transfer all of its Surplus Cash to the WFOEs and its affiliates as consideration. Co-operation committees have also been established according to these agreements. During the year, (i) revenue sharing amounting to approximately RMB0.569 million, RMB0.969 million and RMB24 million was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively; (ii) revenue sharing amounting to approximately RMB0.559 million and RMB5 million was paid or payable by Beijing BIZCOM to Tencent Technology and Cyber Tianjin respectively; (iii) revenue sharing amounting to approximately RMB0.463 million and RMB0.177 million was paid or payable by Beijing Starsinhand to Cyber Tianjin and Tencent Beijing respectively; (iv) revenue sharing amounting to approximately RMB83 million, RMB1 million and RMB7 million was paid or payable by Shenzhen Tencent Tianyou to Tencent Technology, Tencent Shanghai, and Hainan Network respectively.

The risks associated with Structure Contracts and the actions taken by the Company to mitigate the risks

Due to regulatory limitations restricting foreign investment in businesses providing value-added telecommunications services in China, the Company conducts some of its business in the PRC through the OPCOs. These contractual arrangements may not be as effective in providing control as direct ownership. Pursuant to the Structure Contracts, the arbitration tribunal is entitled to decide compensation for the equity interests or property ownership of OPCOs, decide to implement enforceable remedy (including mandatorily requiring OPCOs to transfer the equity interests of OPCOs to the WFOEs, etc.) or order the bankruptcy of OPCOs. Prior to the formation of the arbitration tribunal, the courts of the places where the major assets of OPCOs are situated are entitled to implement interim remedies to ensure the enforcement of the future decisions of the arbitration tribunals.

The WFOEs have been structured and located in order to benefit from preferential tax treatments offered to companies located in designated economic zones and/or operating software-related businesses. Although the relevant governmental authority has granted such preferential tax treatment to certain WFOEs and OPCOs, there can be no assurance that the conditions under which these treatments are provided will always be present. The relevant WFOEs and OPCOs would use their reasonable endeavours to take all necessary actions, including but not limited to maintaining or acquiring their status as "High and New Technology Enterprise" or "National Key Software Enterprise", in order to continue to enjoy the reduced income tax rate and the other tax concessions.

Due to the legal constraints in relation to foreign investment in the telecommunications value-added services industry in the PRC, a number of agreements have been entered into between members of the Group whereby the Company and the WFOEs derive substantially all their revenues from transactions with the OPCOs. The recognition of revenues outlined in these intra-group contracts could be challenged by tax authorities and any adjustment in tax treatment could have a material and adverse impact on the taxable profitability of the Group. As advised by the Company's PRC legal advisers, it is unlikely that the tax treatment of revenues will be challenged by the PRC tax authorities, provided that the transactions under these intra-group contracts represent bona fide transactions conducted on an arm's length basis. The Company will take all necessary actions to ensure and monitor that relevant transactions are to be conducted on an arm's length basis to minimise the risks of adjustment in tax treatment.

For details of the risks associated with the Structure Contracts, please refer to the section headed "Risk factors – Risks relating to our structure" in the IPO prospectus.

Other connected transactions

The Group entered into certain transactions with "related parties" as defined under applicable accounting standards during the financial year ended 31 December 2021 which were disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 26 (Loans to investees and investees' shareholders), Note 35 (Share-based payments) and Note 45 (Related party transactions) to the consolidated financial statements. Save as the related parties transactions involving payment of remuneration to certain directors of the Group which constitute continuing connected transactions fully exempt from the connected transaction requirements under Rule 14A.76(1) or Rule 14A.95 of the Listing Rules, no related parties transactions disclosed in the consolidated financial statements constitutes a connected transaction as defined under Chapter 14A of the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, the following persons, other than the directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the shares of the Company:

Long/ short position in the shares of the Company

Name of shareholder	Long/ short position	Nature of interest/ capacity	Number of shares/ underlying shares held	Approximate % of shareholding (Note 3)
MIH TC	Long position	Corporate (Note 1)	2,769,333,600	28.82%
Advance Data Services Limited	Long position	Corporate (Note 2)	804,859,700	8.38%

Note:

1. MIH TC is controlled by Naspers Limited and held through its non wholly-owned subsidiary, Prosus N.V., which in turn holds MIH TC through MIH Internet Holdings B.V. MIH TC and MIH Internet Holdings B.V. are both wholly-owned subsidiaries of Prosus N.V. As such, Naspers Limited, Prosus N.V., MIH Internet Holdings B.V. and MIH TC are deemed to be interested in the same block of 2,769,333,600 Shares under Part XV of the SFO.

2. Advance Data Services Limited holds 709,859,700 Shares directly and 95,000,000 Shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. As Advance Data Services Limited is wholly-owned by Mr Ma Huateng, Mr Ma has an interest in these shares as disclosed under the section of "Directors' Interests in Securities".

3. As at 31 December 2021, the total number of issued shares of the Company was 9,608,378,469.

Save as disclosed above, the Company had not been notified of any other persons (other than the directors or chief executive of the Company) who, as at 31 December 2021, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the five largest customers of the Group accounted for approximately 7.15% of the Group's total revenues while the largest customer of the Group accounted for approximately 3.05% of the Group's total revenues. In addition, for the year ended 31 December 2021, the five largest suppliers of the Group accounted for approximately 17.19% of the Group's total purchases while the largest supplier of the Group accounted for approximately 5.67% of the Group's total purchases.

None of the directors, their close associates or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had an interest in any of the major customers or suppliers noted above.

AUDIT COMMITTEE

The Audit Committee, together with the Auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2021. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

ENVIRONMENT AND COMPLIANCE WITH LAWS

The Group is committed to minimising the impact on the environment from our business activities and the details of such efforts are set out in the section headed "Environment" in the "Environmental, Social and Governance Report" in this annual report. As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The directors of the Company have complied with such code of conduct throughout the accounting year covered by this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 112,771 employees (2020: 85,858). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the year ended 31 December 2021 was RMB95,523 million (2020: RMB69,638 million).

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

(A) Entitlement to Attend and Vote at the 2022 AGM

For the purpose of determining the shareholders' entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Friday, 13 May 2022 to Wednesday, 18 May 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the 2022 AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 12 May 2022.

(B) Entitlement to the Proposed Final Dividend

For the purpose of determining the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 24 May 2022 to Wednesday, 25 May 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 23 May 2022.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2022 AGM.

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 23 March 2022

Maintaining the highest standards of corporate governance and ethical business practices are core values of the Group. The Board views effective corporate governance practices as a priority of the Group, with the aim of providing our investors with a thorough understanding of the Group's management and how such management oversees and manages different businesses of the Group. Our belief is that investors will realise significant long-term value when the Group's businesses are conducted in an open and responsible manner. Ethical business practices go hand in hand with strong corporate governance, and we believe that running our businesses in an ethical manner will lead to public trust and will ultimately create shareholder value for the Group.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the code provisions as set out in the CG Code. The Board believes that throughout the year ended 31 December 2021, the Company complied with the applicable code provisions set out in the CG Code, except for the deviation from code provisions A.2.1 (now rearranged as C.2.1) regarding the segregation of the roles of the chairman and chief executive and A.4.2 (now rearranged as B.2.2) regarding the retirement and re-election of directors. The reasons for the deviations are further explained in the sub-sections headed "Chairman and Chief Executive Officer" and "Appointments, Re-election and Removal" below.

The Board continues to monitor and review the Company's corporate governance practices and makes necessary changes when appropriate.

BOARD OF DIRECTORS

Responsibilities

The Board's fundamental responsibility is to exercise its best judgment and to act in the best interests of the Company and its shareholders. The Board oversees management's efforts to promote the Company's success while operating in an effective and responsible manner. The Board also formulates the Company's overall business strategy and monitors management's execution of such strategy.

The Board has defined the business and governance issues for which it needs to be responsible, and these matters are reviewed periodically to ensure that the Company maintains effective and up-to-date corporate governance practices. In this regard, the Board:

- determines the Group's mission, provides its strategic direction and is responsible for the approval of strategic plans;
- approves the annual business plan and budget proposed by management;
- retains full and effective control over the Group and monitors management with regard to the implementation of the approved annual business plan and budget;

- appoints the Chief Executive Officer, who reports to the Board, and ensures that succession is planned;
- approves the Company's financial statements and interim and annual reports;
- determines the Group's communication policy;
- determines directors' selection, orientation and evaluation;
- ensures that the Group has appropriate risk management, internal control, internal audit and regulatory compliance procedures in place and that it communicates adequately with shareholders and stakeholders;
- establishes Board committees with clear terms of reference and responsibilities as appropriate;
- defines levels of delegation in respect of specific matters, with required authority to Board committees and management;
- monitors non-financial aspects pertaining to the businesses of the Group;
- considers and, if appropriate, declares the payment of dividends to shareholders; and
- regularly evaluates its own performance and effectiveness.

The Board delegates the responsibility of day-to-day business and operations to the Company's senior management team, which includes its chief officers, the president and executive vice-presidents. The senior management team meets once every two weeks or as frequently as necessary to formulate policies and make recommendations to the Board. The senior management team administers, enforces, interprets and supervises compliance with the internal rules and operational procedures of the Company as well as its subsidiaries and conducts regular reviews, recommends and advises on appropriate amendments to such rules and procedures. The senior management team reports to the Board on a regular basis and communicates with the Board whenever required.

To better serve the long-term interests of our stakeholders, the Board delegates certain matters requiring particular time, attention and expertise to its committees. The Board has determined that these matters are better dealt with by the committees as they require independent oversight and specialist input. As such, the Board has established five committees to assist the Board: Audit Committee, Corporate Governance Committee, Investment Committee, Nomination Committee and Remuneration Committee. Each of the committees has its terms of reference which clearly specifies its powers and authorities. All committees report back to the Board and make recommendations to the Board if necessary.

The Company's governance structure of these committees can be summarised as follows:

Audit Committee

- handles the relationship with the Company's external auditor;
- reviews the Company's financial information;
- exercises oversight of the Company's financial reporting system;
- reviews the work done by the Company's management with respect to risk management and internal control systems;
- oversees the risks undertaken by the Company including determining the level of risk the Company expects to and is able to take; and
- oversees the Group's anti-money laundering and sanctions compliance system.

Corporate Governance Committee

- reviews the Company's corporate governance and makes recommendations to the Board;
- reviews and monitors the Company's policies and practices on its compliance with legal and regulatory requirements;
- develops, reviews and monitors the code of conduct and compliance manual (if any) applicable to employees and directors;
- reviews the shareholders communication policy and makes recommendations to the Board where appropriate to enhance effective communications between the Company and its shareholders;
- reviews and monitors the evaluation and management of issues related to the Company's Environmental, Social and Governance ("ESG") matters;
- reviews and monitors the progress made against ESG-related goals and targets;
- reviews the Company's compliance with the CG Code and disclosure in the Corporate Governance Report and the ESG Report;
- reviews the Company's ESG strategy and makes recommendations to the Board; and
- reviews and monitors the training and continuous professional development of the directors and senior management team.

Investment Committee

- identifies, considers and makes recommendations on mergers, acquisitions and disposals; and
- ensures compliance with the Listing Rules and any other relevant laws and regulations on any mergers, acquisitions and disposals.

Nomination Committee

- reviews and monitors the structure, size, composition and diversity of the Board in light of the Company's strategy;
- identifies suitable and qualified individuals and makes recommendations to the Board as to new Board members, by taking into account the individual's experience, knowledge, skills, gender and background, as well as the Listing Rules requirements;
- reviews and makes recommendations to the Board on individuals nominated to be directors by shareholders;
- assesses the independence of independent non-executive directors and the perspectives, skills and experience that such director can bring to the Board; and
- reviews and monitors the implementation of the board diversity policy and the board nomination policy of the Company.

Remuneration Committee

- reviews and approves proposals about the policy and structure of remuneration of directors and senior management team;
- ensures that these remuneration proposals are aligned to corporate goals and objectives; and
- ensures that no director or any of his associates is involved in deciding his own remuneration.

The major work of these committees during the year 2021 is set out on pages 87 to 94.

All directors have full and timely access to all relevant information as well as the advice and services of the Company's general counsel and the company secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. All directors may also obtain independent professional advice at the Company's expense for carrying out their functions.

We believe education and training are important for maintaining an effective Board. New directors undergo an orientation programme designed to provide a thorough understanding of the Group's operations and businesses, and also receive a handbook outlining their responsibilities under the Listing Rules and applicable laws. Existing directors are provided with tailored training programmes covering topics such as best practices in corporate governance, legal and regulatory trends and, given the nature of our business, emerging technologies and products. Directors also regularly meet with the senior management team to understand the Group's businesses, governance policies and regulatory environment. During the year ended 31 December 2021, the Company arranged training on topics relating to corporate governance, legal and regulatory updates and product trends which are relevant to the Group's businesses. The table below summarises the participation of each of the directors in continuous professional development during the year ended 31 December 2021:

Name of director	**Participated in continuous professional development**[1]
Executive directors	
Ma Huateng	√
Lau Chi Ping Martin	√
Non-executive directors	
Jacobus Petrus (Koos) Bekker	√
Charles St Leger Searle	√
Independent non-executive directors	
Li Dong Sheng	√
Iain Ferguson Bruce[2]	√
Ian Charles Stone	√
Yang Siu Shun	√
Ke Yang	√

1 Attended training/ seminar/ conference arranged by the Company or other external parties or read relevant materials.

2 Mr Iain Ferguson Bruce retired as an independent non-executive director and ceased to be a member of the Audit Committee, Corporate Governance Committee and Nomination Committee with effect from the conclusion of the annual general meeting of the Company held on 20 May 2021 (the "2021 AGM").

Corporate Governance Report

A high level of corporate governance and integrity cannot be maintained only with the Board's efforts. Each of the Group's employees plays a role in contributing to such cause. A code of conduct which emphasises integrity and respect is distributed by the Company to all employees and it forms part of the employment agreement with each of the employees.

In addition, the Board has adopted various practices to bring the Group to a high level of corporate governance and compliance with the CG Code.

To stay abreast of the high level of corporate governance and maintain transparency of our corporate governance practices, we have continued to adopt and foster the following corporate governance practices:

- review of the shareholders communication policy has been and will be conducted on a regular basis;
- training has been and will continue to be provided to the directors on a timely basis, including briefing the directors on any updates to the Listing Rules and relevant laws;
- the company secretary who is an employee of the Company attends training in compliance with the Listing Rules requirements; and
- informal updates from time to time and structured monthly updates on the Company's performance, position and prospects are provided to the directors.

Chairman and Chief Executive Officer

Mr Ma Huateng serves as the Chairman and Chief Executive Officer of the Company. This is at variance with code provision A.2.1 (now rearranged as C.2.1) of the CG Code, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual, and that the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

In view of the ever-changing business environment in which our Group operates, the Chairman and Chief Executive Officer must be technically sophisticated and sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board thus considers that a segregation of the roles of the Chairman and Chief Executive Officer may create unnecessary costs for the daily operation of the Group.

Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team. Chief officers and senior executives are invited to attend Board meetings from time to time to make presentations and answer the Board's enquiries. In addition, directors are encouraged to participate actively in all Board and committee meetings of which they are members, and the Chairman ensures that all issues raised are properly briefed at the Board meetings, and he works with the senior management team to provide adequate, accurate, clear, complete and reliable information to members of the Board in a timely manner. Further, the Chairman ensures that adequate time is available for discussion for all items at the Board meetings. During the year ended 31 December 2021, the Chairman held a meeting with the independent non-executive directors without the presence of other directors as required by the Listing Rules.

The Board is therefore of the view that there is an adequate balance of power and that appropriate safeguards are in place. Nevertheless, the Board will continue to regularly monitor and review the Company's current structure and make necessary changes when appropriate.

Composition

As at the date of this annual report, the Board is comprised of eight directors, with two executive directors, two non-executive directors and four independent non-executive directors. During the year ended 31 December 2021 and up to the date of this annual report, there is no change to the composition of the Board except that Mr Iain Ferguson Bruce has retired as an independent non-executive director with effect from the conclusion of the 2021 AGM.

A list of directors and their respective biographies which include their positions held at the Company and certain subsidiaries are set out on pages 56 to 59 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

In order to take advantage of the skills, experiences and diversity of perspectives of the directors and in order to ensure that the directors give sufficient time and attention to the Group's affairs, we request each of the directors to disclose to the Company, on a quarterly basis, the number and the nature of offices held in public companies or organisations and other significant commitments. The Board's composition is in compliance with the requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board. The Board believes that the balance between the executive directors and the non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the shareholders and the Group.

The Board values the importance of professional judgment and advice provided by non-executive directors to safeguard the interests of the shareholders. The non-executive directors contribute diversified qualifications and experience to the Group by expressing their views in a professional, constructive and informed manner, and actively participate in Board and committee meetings and bring professional judgment and advice on issues relating to the Group's strategies, policies, performance, accountability, resources, key appointments, standards of conduct, conflicts of interests and management process, with the shareholders' interests being the utmost important factor. The non-executive directors also take the lead where potential conflicts of interests arise and exercise their professional judgment and utilise their expertise to scrutinise the Company's performance in achieving agreed corporate goals, and monitor performance reporting.

Further, in compliance with Rule 3.10 of the Listing Rules, one of our independent non-executive directors has the appropriate professional qualifications of accounting or related financial management expertise, and provide valuable advice from time to time to the Board. The Company has also received from each independent non-executive director a confirmation annually of their independence and the Nomination Committee has conducted an annual review and considers that all independent non-executive directors are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each independent non-executive director.

As part of our corporate governance practice to provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, independent non-executive directors are identified as such in all corporate communications containing the names of the directors. In addition, an updated list of directors identifying the independent non-executive directors and the roles and functions of the directors is maintained on the Company Website and the Stock Exchange's website.

Appointments, Re-election and Removal

The Board is the core of the Group's success, and with the appropriate composition of the Board, we can benefit from the right set of skills, experience and diversity of perspectives to take the Company forward. Therefore, it is essential for the Company to maintain a formal, considered and transparent procedure for the appointment of new directors to the Board. It is our corporate governance practice and in accordance with the Articles of Association that all directors (except for the Chairman) should be subject to re-election at regular intervals and the resignation and removal of any director should be explained with reasons. At the 2021 AGM, Mr Iain Ferguson Bruce retired with effect from the conclusion of the 2021 AGM and Mr Yang Siu Shun retired and was re-elected.

Code provision A.4.2 (now rearranged as B.2.2) of the CG Code provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Chairman, in accordance with the Articles of Association, whilst holding such office is not subject to retirement by rotation nor taken into account in determining the number of directors to retire in each year. Therefore, this is a deviation from code provision A.4.2 (now rearranged as B.2.2) of the CG Code. The Chairman is one of the founders of the Group and he plays a key role in the growth and development of the Group and his continuing presence in the Board is vital to the sustainable development of the Group. Given the importance of the Chairman's role in the development of the Group, the Board considers that the deviation from code provision A.4.2 (now rearranged as B.2.2) of the CG Code has no material impact on the operation of the Group as a whole.

As the re-election of Mr Li Dong Sheng, who was re-elected in 2018, was not considered at the 2021 AGM, there is a deviation from code provision A.4.2 (now rearranged as B.2.2) of the CG Code. Notwithstanding Mr Li Dong Sheng was not subject to retirement by rotation at the 2021 AGM, his biography and details of his emoluments are set out in the Directors' Report and Note 14 to the consolidated financial statements respectively for shareholders' information. The Nomination Committee has assessed and confirmed the independence of Mr Li Dong Sheng in 2021. Considering that the re-election of Mr Li Dong Sheng will be considered at the 2022 AGM, the Board believes that such deviation does not have a material impact on the operation of the Company as a whole.

Board Activity

The Board met five times in 2021. The attendance of each director at Board meetings, committee meetings, the annual general meeting and the extraordinary general meeting, whether in person or by means of electronic communication, is detailed in the table below:

Name of director	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee	Annual General Meeting	Extraordinary General Meeting
Executive directors							
Ma Huateng	5/5			1/1		1/1	1/1
Lau Chi Ping Martin	5/5					1/1	1/1
Non-executive directors							
Jacobus Petrus (Koos) Bekker	5/5				4/4	1/1	1/1
Charles St Leger Searle	5/5	8/8	2/2	1/1		1/1	1/1
Independent non-executive directors							
Li Dong Sheng[1]	5/5			1/1	4/4	0/1	0/1
Iain Ferguson Bruce[2]	2/2	4/4	1/1	1/1		1/1	1/1
Ian Charles Stone	5/5	8/8	2/2	1/1	4/4	1/1	1/1
Yang Siu Shun[3]	5/5	8/8	2/2	0/0		1/1	1/1
Ke Yang[1]	5/5		2/2			0/1	0/1

1 Mr Li Dong Sheng and Professor Ke Yang were not able to attend the 2021 AGM and the extraordinary general meeting of the Company held on 20 May 2021 (the "2021 EGM") due to other prior business commitments.

2 Mr Iain Ferguson Bruce retired as an independent non-executive director and ceased to be a member of the Audit Committee, Corporate Governance Committee and Nomination Committee with effect from the conclusion of the 2021 AGM.

3 Mr Yang Siu Shun has been appointed as a member of the Nomination Committee with effect from the conclusion of the 2021 AGM.

At the Board meetings, the Board discussed a wide range of matters, including the Group's overall strategies, financial and operational performances, approved the annual, interim and quarterly results of the Group, the appointment of directors, business prospects, regulatory compliance and corporate governance, and other significant matters. The company secretary, in consultation with the Chairman and the senior management team, prepares the agenda for each meeting and all directors are given the opportunity to include matters for discussion in the agenda. The company secretary also ensures that all applicable rules and regulations in relation to the Board meetings are followed. The company secretary sends notice of the Board meeting to each of the directors at least 14 days in advance of each regular Board meeting. The company secretary also sends the agenda, board papers and relevant information relating to the Group to each of the directors at least 3 days in advance of each regular Board meeting and committee meeting, and keeps the directors updated on the Group's financial performance and latest developments. If any director raises any queries, steps will be taken to respond to such queries as promptly and fully as possible. If there is potential or actual conflict of interests involving a substantial shareholder or a director, such director will declare his/her interest and will abstain from voting on such matters. The directors may approach the Company's senior management team when necessary. The directors may also seek independent professional advice at the Company's expense in appropriate circumstances.

The company secretary ensures that there is a good and timely flow of information to the Board. The company secretary is responsible for taking minutes of all Board and committee meetings and ensuring that sufficient details of the matters considered and decisions reached have been recorded. Draft and final version of the minutes of meetings are sent to the directors for comments and records respectively within a reasonable time after each meeting, and final minutes with the relevant board papers and related materials are kept by the company secretary and are available for review and inspection by the directors at any time.

THE COMMITTEES

As described above, the Board has established five committees, each of which has been delegated responsibilities and reports back to the Board: Audit Committee, Corporate Governance Committee, Investment Committee, Nomination Committee and Remuneration Committee. The roles and functions of these committees are set out in their respective terms of reference. The terms of reference of each of these committees will be revised from time to time to ensure that they continue to meet the needs of the Company and to ensure compliance with the CG Code. The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the Company Website and the Stock Exchange's website.

Audit Committee

The Audit Committee comprises only non-executive directors. Its members are Mr Yang Siu Shun, Mr Ian Charles Stone (both are independent non-executive directors) and Mr Charles St Leger Searle (non-executive director). Mr Yang Siu Shun, who chairs the Audit Committee, and Mr Charles St Leger Searle have appropriate professional qualifications and experiences in financial matters.

The Audit Committee meets not less than four times a year; the Audit Committee met eight times in 2021. Individual attendance of each Audit Committee member is set out on page 85. In addition to the members of the Audit Committee, meetings were attended by the Chief Financial Officer, the Head of IA and the Head of IC, and the external auditor at the invitation of the Audit Committee.

The Audit Committee's major work during the year 2021 includes the following:

- reviewing the 2020 annual report, including the Corporate Governance Report, the ESG Report, the Directors' Report and the financial statements, as well as the related results announcement;
- reviewing the 2021 interim report and interim results announcement;
- reviewing the 2021 first and third quarters results announcements;
- reviewing the status of compliance with the CG Code, the Listing Rules and relevant laws by the Group;
- reviewing the dividend policy of the Company;
- in relation to the external auditor, reviewing their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement;
- reviewing the plans (including those for 2021), resources and work of the Company's internal auditors;
- reviewing the adequacy of resources, qualifications and training of the Group's finance department; and
- reviewing the effectiveness of the Company's financial reporting system, the system of internal controls in operation, risk management system and associated procedures within the Group.

PricewaterhouseCoopers ("PwC") is the Company's external auditor. The Audit Committee annually reviews the relationship of the Company with PwC. Having also reviewed the effectiveness of the external audit process as well as the independence and objectivity of PwC, the Audit Committee is satisfied with this relationship. As such, the Audit Committee has recommended their re-appointment at the 2022 AGM.

Corporate Governance Committee

The Corporate Governance Committee comprises only non-executive directors. Its members are Mr Charles St Leger Searle (non-executive director), Mr Ian Charles Stone, Mr Yang Siu Shun and Professor Ke Yang (all of them are independent non-executive directors). The Corporate Governance Committee is chaired by Mr Charles St Leger Searle.

The Corporate Governance Committee met twice in 2021. Individual attendance of each Corporate Governance Committee member is set out on page 85.

The Corporate Governance Committee's major work during the year 2021 and up to the date of this annual report includes the following:

- reviewing the Company's policies and practices on corporate governance and ESG;
- reviewing legal and regulatory compliance, including the insider dealing policy, the disclosure of inside information policy and the shareholders communication policy. The insider dealing policy and the shareholders communication policy were revised and adopted in March 2022;
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;
- reviewing the Company's compliance with the ESG Reporting Guide and disclosure in the ESG Report;
- considering the Company's environmental targets;
- discussing the arrangements made for directors and senior management team to attend training sessions for continuous professional development; and
- updating the terms of reference to specify the additional oversight role of the Corporate Governance Committee on the Company's ESG matters and making recommendations to the Board.

Investment Committee

The Investment Committee comprises a majority of executive directors. Its members are Mr Lau Chi Ping Martin, Mr Ma Huateng and Mr Charles St Leger Searle. The Investment Committee is chaired by Mr Lau Chi Ping Martin.

In 2021, the Investment Committee had considered and passed various resolutions on its decisions on the Group's acquisitions and disposals.

Nomination Committee

The Nomination Committee comprises a majority of independent non-executive directors. Its members are Mr Ma Huateng, Mr Li Dong Sheng, Mr Ian Charles Stone, Mr Yang Siu Shun (appointed as a member of the Nomination Committee with effect from the conclusion of the 2021 AGM) (all three are independent non-executive directors) and Mr Charles St Leger Searle (non-executive director). The Nomination Committee is chaired by Mr Ma Huateng.

The Nomination Committee met once in 2021. Individual attendance of each Nomination Committee member is set out on page 85.

During 2021, the Nomination Committee reviewed board composition and director succession, the board diversity policy and the board nomination policy, and also considered and made recommendations to the Board on the re-appointment of the retiring directors at the 2021 AGM. The board diversity policy was revised and adopted in March 2022. The Nomination Committee has also assessed the independence of the independent non-executive directors and considers all of them to be independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each independent non-executive director, and the perspectives, skills and experience that such director can bring to the Board. The Company recognises the benefits of having a diverse Board, and views diversity at Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage. As such, the Board has set measurable objectives for the implementation of the board diversity policy to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and maintain the effectiveness of the Board. The Nomination Committee is satisfied that the board diversity policy and the board nomination policy are successfully implemented with reference to the measurable objectives. The Nomination Committee will continue to conduct periodic review and monitor the implementation of the board diversity policy and the board nomination policy to ensure their continued effectiveness.

A summary of the board nomination policy and related nomination procedures is set out as follows:

Purpose and Objectives

The board nomination policy aims to set out the approach to enable the Nomination Committee to nominate a director to the Board.

Director Selection Criteria

In the determination of the suitability of a candidate, the Nomination Committee will consider a range of factors, including but not limited to the following selection criteria, before making recommendations to the Board:

(a) the Company's prevailing board diversity policy and the requirements under the Listing Rules;

(b) the independence of the independent non-executive directors and the independence criteria set out in Rule 3.13 of the Listing Rules;

(c) potential or actual conflicts of interest of the candidate or the re-elected director;

(d) the expected contribution that the candidate would add to the Board and to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business;

(e) the candidate or the re-elected director's reputation for integrity, accomplishment and experience in the relevant sectors;

(f) the candidate or the re-elected director's ability to commit and devote sufficient time and attention to the Company's affairs; and

(g) other relevant factors which will be considered by the Nomination Committee on a case-by-case basis.

The Nomination Committee has the discretion to nominate any person as it considers appropriate.

Nomination Procedure by Nomination Committee

The Nomination Committee will have a meeting at least once a year, and candidates, if any, will be identified for consideration. Nomination from the human resources department, external agencies, Board referrals, or shareholders, if appropriate, will be considered.

Where a retiring director, being eligible, offers himself/herself for re-election, the Nomination Committee will review the overall contribution to the Company of the retiring director and will also determine whether the retiring director continues to meet the selection criteria set out in the board nomination policy.

The Nomination Committee will assess the eligibility of a candidate to become a director of the Company taking into account factors, including without limitation his/her reputation, character, knowledge and experience, and make recommendations for the Board's consideration and approval.

The Board will consider and approve the appointment, if appropriate, based upon the recommendation of the Nomination Committee.

Monitoring, Reporting and Review

The Nomination Committee will report annually on the Board's composition and make appropriate disclosures regarding the board diversity policy in the Corporate Governance Report of the Company's annual reports.

A summary of the board diversity policy is set out as follows:

Purpose and Objectives

The board diversity policy aims to set out the approach to enable the Nomination Committee to achieve diversity on the Board.

Policy Statement

The Company recognises the benefits of having a diverse Board, and views diversity at Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage. A truly diverse Board will be achieved through a number of factors, including but not limited to differences in skills, knowledge, experience and background.

Measurable Objectives

Board appointments will be made on the basis of merit and fairness, with due regard to the benefits of diversity on the Board. The Nomination Committee will continue to have primary responsibility for identifying suitably qualified candidates to become members of the Board and, in carrying out this responsibility, will give adequate consideration to the board diversity policy. In forming its perspective on diversity, the Nomination Committee will also take into account factors based on the Company's business model and specific needs from time to time, including without limitation, skills, knowledge, experience, gender and background.

The Nomination Committee will ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective.

Independent Views

In assessing whether a potential candidate is qualified to become an independent non-executive director of the Company, the Nomination Committee and the Board will consider, among others, whether the candidate is able to devote sufficient time on performing his/her duties as an independent non-executive director of the Company, and the background and qualification of the candidate, in order to assess whether such candidate is able to bring independent views to the Board.

In considering whether an independent non-executive director should be proposed for re-election, the Nomination Committee and the Board will assess and evaluate the independent non-executive director's contribution to the Board during the term, in particular, whether the independent non-executive director is able to bring independent views to the Board.

The Company will ensure that there are channels (in addition to independent non-executive directors) where independent views are available, including but not limited to availability of access by directors of the Company to external independent professional advice to assist their performance of duties.

Monitoring, Reporting and Review

The Nomination Committee will report annually on the Board's composition and make appropriate disclosures regarding the board diversity policy in the Corporate Governance Report of the Company's annual reports. It will also monitor the implementation of the board diversity policy.

Remuneration Committee

The Remuneration Committee comprises only non-executive directors. Its members are Mr Ian Charles Stone, Mr Li Dong Sheng (both are independent non-executive directors) and Mr Jacobus Petrus (Koos) Bekker (non-executive director). The Remuneration Committee is chaired by Mr Ian Charles Stone.

The Remuneration Committee met four times in 2021. Individual attendance of each Remuneration Committee member is set out on page 85.

The Remuneration Committee has the delegated responsibility to determine the remuneration packages of each member of the senior management team and make recommendations to the Board on the remuneration package of each director.

The Remuneration Committee's major work during the year 2021 includes the following:

- reviewing and recommending to the Board in respect of the remuneration policies and structure of the Company by benchmarking peer companies with a similar scale to ensure that the Company's remuneration packages are competitive to recruit the best talents in the industry and to retain key staff;

- reviewing and recommending to the Board on the remuneration packages for the directors;

- assessing performance and, reviewing and approving adjustments to the remuneration packages for the members of the senior management team;

- reviewing and approving compensation awards granted to senior management team, recognising their contributions to the Company and providing incentives for future performances;

- reviewing and endorsing the amendments to the 2013 Share Award Scheme and the 2019 Share Award Scheme; and

- reviewing and approving the service contracts entered into by each executive director with the Group respectively.

In conducting its work in relation to the remuneration of directors and senior management team, the Remuneration Committee ensured that no individual or any of his associates was involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned with the market practice and conditions, the Company's goals and strategies. The remuneration awards are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles. For further details of emoluments of the senior management by band, please refer to Note 13 to the consolidated financial statements.

In respect of non-executive directors, the Remuneration Committee has reviewed the fees payable to them taking into account the particular nature of their duties, relevant guidance available and the requirements of the Listing Rules.

ACCOUNTS, RISK MANAGEMENT AND INTERNAL CONTROL

As part of the Board's responsibilities, the Board ensures that the assessment over the Group's performance and prospects are clearly and comprehensively presented. The directors acknowledge that it is their ultimate responsibility to prepare the accounts which give a true and fair view of the financial position of the Group on a going-concern basis and other announcements and financial disclosures. To assist the Board in discharging their responsibilities, management provides updates to the Board from time to time, including the Group's detailed business and financial position, in order to give the directors a balanced, understandable and clear assessment of the performance, position and prospects of the Group. Management also provides all necessary and relevant information to the Board, giving the directors sufficient explanation and information they need to discharge their responsibilities and make an informed assessment of financial and other information put before them for approval. The Auditor's statement in respect of their reporting responsibilities is set out in the "Independent Auditor's Report" of this annual report.

Adequate and effective risk management and internal control systems are key to safeguarding the achievement of the Company's strategic objectives. Risk management and internal control systems shall ensure the Company's effective business operation, the accuracy and reliability of financial reporting, as well as the compliance with applicable laws, regulations and policies.

The Board acknowledges that it is their responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems. The Board delegates their responsibility to the Audit Committee to review the practices of management with respect to risk management and internal control, including the design, implementation and supervision of the risk management and internal control systems, on a quarterly basis. The Audit Committee also reviews the effectiveness of the risk management and internal control systems on an annual basis. The Board is responsible for overseeing the risk appetite of the Company including determining the Company's acceptable level of risk, and proactively considering, analysing and formulating strategies to manage the Company's significant risks. The risks mentioned above also include, but are not limited to, significant risks related to the environment, social and governance aspects of the Company.

Under the supervision and guidance of the Board, the Company has adopted a risk management and internal control structure, referred to as the "Three Lines of Defence" model, to ensure the effectiveness of its risk management and internal control systems.

First Line of Defence – Operation and Management

Our First Line of Defence is mainly comprised of business and functional departments of each business group of the Company who are responsible for the day-to-day operation and management. They are responsible for designing and implementing controls to address the risks.

Second Line of Defence – Risk Management

Our Second Line of Defence is mainly the IC. They are responsible for formulating policies related to the risk management and internal control of the Company and for planning and implementing the establishment of integrated risk control systems. To ensure the effective implementation of such systems, they also assist and supervise the first line of defence in the establishment and improvement of risk management and internal control systems.

Third Line of Defence – Independent Assurance

Our Third Line of Defence is comprised of the IA and the Anti-fraud Investigation Department.

The IA holds a high degree of independence and is responsible for providing independent evaluation on the effectiveness of the Company's risk management and internal control systems, and monitoring the Company's improvement on risk management and internal controls.

The Company has formulated policies and established management systems to enhance and support the Company's compliance with anti-corruption laws and regulations. The Anti-fraud Investigation Department is responsible for receiving whistleblower reports through various channels and following up and investigating alleged fraudulent activities. It also assists management in promoting the "Tencent Sunshine Code of Conduct" (the "Sunshine Code") and the value of integrity to all employees of the Company.

The IA and the Anti-fraud Investigation Department have direct reporting lines to the Audit Committee.

The Three Lines of Defence model of the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives of the Company, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board and management have always placed importance on the Company's risk management and internal control systems. In 2021, the Company has invested more resources in the continuous improvement of the risk management and internal control systems, which have also continuously increased the awareness of risk management among the employees. The internal control function has continuously worked closely with and provided proactive support to the business groups in their business development and risk management. Furthermore, the IA has also continued to promote the deployment of various internal audit projects and continuous audits to provide more effective and timelier independent evaluations. The Anti-fraud Investigation Department further strengthened the values of integrity among the employees, followed up and investigated the alleged fraudulent activities. The connection and interaction among the three lines of defence have been further enhanced to provide more effective support to the Company's development.

Risk Management

The Company is committed to continuously improving its risk management system, including structure, process and culture, and its risk management ability, to ensure long-term growth and sustainable development of the Company's business.

The Company has established a risk management system (including the "Three Lines of Defence" internal monitoring model as detailed above) which sets out the roles and responsibilities of each relevant party in the system as well as the relevant risk management policies and processes. Each business group of the Company, on a regular basis, identifies and assesses any risks that may negatively impact the achievement of its objectives, and formulates appropriate response measures. The Company also provides risk management and internal control training for staff on a regular basis.

Risk Management Process

Being an Internet and technology company with a wide variety of rapidly-changing businesses, the Company has adopted the following dynamic risk management process in response to the ever-changing risk landscape:

- Business and functional departments of each business group identify, assess and respond to risks in the course of operation in a systematic manner, escalating concerns and communicating results to the IC;

- The IC collects, analyses and consolidates a list of significant risks at the business level, and provides input on risk response strategies and control measures for such risks. These significant risks as well as the corresponding risk responses and control measures will be reviewed by management and subsequently by the Audit Committee before reporting to the Board;

- The IC analyses and evaluates the responses to significant risks from time to time, and reports to the Audit Committee at least once a year; and

- The Audit Committee, on behalf of the Board, assesses and determines the nature and level of the risks that the Company is willing to take in order to achieve its business objectives and formulates appropriate response strategies which include designating responsible departments for handling each significant risk. The Audit Committee provides guidance to the Company's management to implement effective risk management system with support from the IC.

Significant Risks of the Company

As the complexity of the Company's business increases and the external environment continues to evolve, the Company faces significant risks, including but not limited to ESG risk. Through risk management analysis and evaluation, the management has identified ten significant risks for the financial year 2021, nine of which remained the same as disclosed in financial year 2020. Among the nine significant risks, the "Regulatory and compliance risk", "Crisis management, public relations and reputation risk", "Information security risk" and "M&A and investment management risk" have increased while the other risks remain at a similar level as last year. Meanwhile, considering the global macroeconomic uncertainty and volatility and the impact of COVID-19 epidemic, one new significant risk, "Macroeconomic risk", is included in 2021.

On behalf of the Board, the Audit Committee supervises the overall risk status of the Company and assesses the change in the nature and severity of the Company's major risks. The Audit Committee considers that management has taken appropriate measures to address and manage the significant risks that they are responsible for at a level acceptable to the Board.

Below is a summary of the significant risks of the Company along with the applicable response strategies. The Company's risk profile may change and the list below is not intended to be exhaustive.

1. *Regulatory and compliance risk*

   Regulatory authorities around the world have heightened the regulatory requirements for the Internet and technology industry and have introduced new laws and regulations. As the Company continuously expands its businesses both locally and overseas, it is required to keep up and comply with the relevant applicable laws and regulations in different countries and jurisdictions, including but not limited to laws and regulations relating to privacy and data protection, anti-trust, anti-unfair competition, IP, telecommunications and Internet, gaming, Internet finance, labour protection, foreign investment, international trade, etc. In addition, the development of various industries around the world may be impacted by global regulatory uncertainties and uncertainties in international relations.

   The Company has set up dedicated compliance departments and compliance specialist teams, engaging external professional consultants to work closely and communicate with management, communicating with regulatory authorities in a timely manner, actively staying on top of the changes to relevant laws and regulations, adjusting strategies and taking appropriate actions or measures, improving internal training and the understanding of the latest laws and regulations, and enhancing the corresponding management system to ensure the Company is in compliance with such applicable laws and regulations. The Company has taken practical steps to devote substantial resources in various areas to ensure the Company's compliance with regulatory requirements.

2. *Macroeconomic risk*

The Company's revenue generated from certain businesses is closely related to the macroeconomy and the overall consumption environment. Global and regional economic uncertainties, COVID-19 epidemic and other factors may reduce individual users' purchasing power and their willingness to consume, resulting in a decrease in corporates' revenue and thereby leading to a reduction in the resources they invest in market and business development. All of the above factors may adversely affect certain revenue streams of the Company. The changes in trading and investment policies and market changes resulting from the changes in international circumstances and the epidemic may negatively affect the Company's operation, market and collaboration with its business partners, which may in turn affect and weaken the Company's competitiveness and growth potential.

In response to the macroeconomic uncertainties, the Company adjusts its business development strategy in a scientific, flexible and reasonable manner to align with the macroeconomic environment, and to continuously seek opportunities for business development. The Company attaches great importance to product and service solutions, achieves sustainable business growth through the improvement of user experience, and builds long-term and stable relationships with its existing customers. Despite an adverse macroeconomic environment where economic growth slows down, epidemic remains volatile, and international relations remain uncertain, the Company will continue to provide product solutions and digital services to assist corporates in further enhancing competitiveness and improving productivity during this particular period, create value for its customers and business partners, and fulfill its social responsibility with the mission of "Tech for Good".

3. *Crisis management, public relations and reputation risk*

As an Internet and technology company with a diverse portfolio of businesses, products, users and business partners, as well as increasingly complex business models, the Company draws attention from the public and media. The Company needs to fully consider possible crisis and actively responds to them, to avoid the escalation of problems or crisis. The Company also needs to disclose comprehensive and proper information to the public. Otherwise, it may damage the Company's reputation, brand and image, and adversely affect the business and prospects of the Company.

In adherence to the principles of openness and transparency, the Company has communicated with the public in a timely manner and disclosed comprehensive and proper information. In response to crisis, the Company has established the corresponding emergency response mechanism, to follow up on the progression of crisis, assess risks, make prompt decisions, and adjust its businesses to reduce the impact. The Company has set up professional public relations department and teams for crisis management to continuously improve its crisis management and public relations capabilities, with established emergency response and public relations management mechanisms, and to provide training and guidance related to crisis management. The public relations teams have maintained close interaction with management and business groups of the Company, to continuously gather public opinions, analyse relevant market information for management to enable management timely respond and disclose comprehensive and proper information to the public according to the Company's policies and procedures; and protect the Company's reputation.

4. *Information security risk*

All countries and jurisdictions continue to heighten its supervision over cyber security and personal information protection. Protecting and safeguarding user and customer data is the top priority of the Company. The Company continues to pay attention to the laws and policies relating to user privacy and data protection in various jurisdictions and is fully aware that any loss or leakage of such information could have a significant negative impact on the affected users and customers. This could expose the Company to significant liability and significant reputational risk.

The Company strongly believes that protecting user and customer data is the key prerequisite for delivering secured and high-quality products and user experience. With a strong commitment to protecting data privacy and security, the Company strictly complies with applicable laws and regulations, and strives to provide the highest level of protection on such information and data. In this regard, the Company has formulated and kept optimising control measures to protect such information and data. Information security is ensured through effective management systems, encryption, access restrictions and controls, the establishment of appropriate and effective management processes, and continuous improvement of the business continuity and disaster recovery management. In addition, the Company arranges regular reviews by independent specialists over the Company's data protection practices; and provides training for staff to enhance their awareness of information security.

5. *Market competition and innovation risk*

The Internet and technology industry is highly competitive, innovative and ever-changing at all times. The development of technologies brings evolutional changes to the existing business models; and the cross-sectoral expansion of non-Internet and technology companies bring in more new players into the market. Users' expectations for innovative products and services are also increasing. Therefore, how to create value for more users and promote innovative and sustainable social values through innovation in technology, product and business model are the key challenges of the Company.

The Company stays on top of trends in market and industry development, as well as user needs, keeps up with the technological development through innovation in frontier technology and explores application of technologies in new scenarios. The Company stays focused on expectation changes in user experience, stays active in promoting the incubation of new business, keeps exploring new forms of business, and recruits talent, optimises its organisational structure, and enhances the innovation capabilities by improving talent quality with cultivating young talent. The Company also continuously enhances its technical capabilities and innovation environment to develop products that meet the expectations of the market, to continuously improve user experience and to maintain its competitiveness in the market. The Company collaborates with its partners to jointly innovate, enhance its service capabilities, and create value for users and the society.

6. *M&A and investment management risk*

The Company has a certain scale of investment activities in diverse fields. It is important for the Company to adopt robust procedures in the formulation of investment strategies and strong treasury management, both at the investment evaluation stage as well as the post-investment stage. Failure to promptly and effectively manage investment risks could hinder the realisation of investment strategies and lead to probable financial loss of the Company.

The Company takes the management of investment risks seriously and has established an Investment Committee under the Board, dedicated an investment team to identify investment opportunities, appointed finance, legal and other relevant professional teams to manage relevant risks, put in place the investment risk evaluation and approval process, and conducted comprehensive analysis. The Company has also designated finance, legal and other relevant professional teams to support and monitor the performance of the investee companies. These teams periodically analyse and review relevant operating and financial information of the investee companies to ensure that they continue to satisfy the Company's investment strategies. In addition, the Company has invested resources in internal audit and internal control functions to continuously support the management of its controlling subsidiaries in establishing more sound risk management and internal control systems.

7. *ToB business risk*

The Company has actively developed various ToB businesses related to Industrial Internet. With the rapid development of the ToB business, if the Company fails to adjust its business strategy to respond to changes in industry trends and market needs on a timely basis, to keep optimising its organisational structure with support from professional talent, to improve its internal management system and processes for ToB business, to enhance its supply chain management capabilities, and to improve its cooperation mechanisms with various business partners, it may face more managerial challenges, and may affect the sustainable development of its ToB business and the realisation of the Company's strategic goals.

The Company continues to accumulate and solidify its experience in the ToB business by analysing development trends in different industries and changes in user needs. The Company has started to increase its footprints in the ToB business by integrating cloud computing, AI, Internet of Things, security and other advanced technologies for deployments in various industry-specific scenarios, to build a new, intelligent ecosystem that efficiently connects customers and enterprises. This has been applied across many industries including social services, tourism, healthcare, industry, agriculture, transport, energy, retail, financial services, etc. Furthermore, the Company is continuously developing its ToB business, optimising its management over business structure, human resources, management policies and business processes, and improving its supply chain management capabilities to ensure the effective operation of the ToB business for rapid and sustainable development. Through continuous technological innovation, the Company continues to enhance its ability to serve corporate clients and to promote the integration and development of the digital economy with the real economy.

8. *Business continuity risk*

The stability of servers and network infrastructure for products and platforms of the Company is of vital importance for the successful operation of the Company's business as well as the provision of high-quality user experience. Any material functional defect, interruption, breakdown or other issues in connection are likely to adversely impact the Company's businesses. In addition, the Company's operations may be affected by uncontrollable external factors such as natural disasters, social security events, epidemic disease or energy supply. Relevant incidents may damage workplaces and equipment that are vital to the Company and its business partners, and threaten the health of their employees, which results in disruption of Company's normal operation.

The Company continues to invest in its network infrastructure to enhance its established business recovery mechanism to ensure network security in order to provide consistent support to business development. Meanwhile, the Company has established dedicated teams to develop business contingency plans and to perform regular drills. All business departments also implemented various emergency measures to ensure smooth business operation. In addition, an independent dedicated team has been set up to perform regular checks on the effectiveness of the relevant emergency mechanisms and measures, as well as the drills and its results. In terms of energy use, the Company continues to increase the proportion of renewable energy, deploy rooftop solar PV system for data centers, build energy storage stations, and participate in green power trading. In the post-pandemic era, the Company's emergency response team continues to operate effectively, closely monitoring risks, keeping up with policy changes, and responding to both risks and policy changes in a timely and appropriate manner. For example, the Company provides mobile working solution plan and various functional support, to support the business group in responding to urgent needs through adjusting resource allocation and timely deployment of emergency measures to ensure employee safety and continued operations of the Company's business. The Company also performs emergency drills to improve business's capabilities in responding to emergencies. Meanwhile, the Company also works closely with partners to seek solutions to application scenarios during these special periods, and to jointly build an open, innovative and secured digital ecosystem to support the economic recovery and business development in the post-pandemic era.

9. *Social responsibility and environmental sustainability risk*

The Company upholds its vision and mission of "Value for Users, Tech for Good", and constantly reviews its products and platforms from the perspective of social responsibility. With a strategic enhancement in 2021, the Company incorporated "Sustainable Innovations for Social Value" into its core strategy, and actively commits to social responsibility and promotes social and environmental sustainability using Internet and other technologies.

The Company takes equal emphasis on technology innovation and industrial development, continuously enhances the core capabilities such as cloud computing, AI, big data, security, etc., builds an open ecosystem, promotes industry collaboration, supports the transformation of various industries including healthcare, transportation, tourism, retail, and energy, etc., enhances its digital capabilities in supporting employment and entrepreneurship opportunities, and facilitates the development of digital economy comprehensively. By utilising its core competencies of an Internet company, the Company effectively supports rural governance, attracts talent to return to their villages and improves productivity of villages through the establishment of the "WeCounty" platform. The Company has also launched initiatives such as the "Cultivator Plan" for talent revitalisation, invested continuously in rural digital construction, and promoted rural revitalisation and common prosperity.

As the first Internet and technology enterprise to establish a charity foundation in China, the Company continues to make donations in various charitable fields, commits itself to providing digital support for charity fundraising and donations, empowers the digitalisation of public welfare, and promotes the sustainable development of the public welfare ecosystem.

Together with several renowned scientists, the Company established and continues to fund the "Xplorer Prize" to encourage the study and research of cutting-edge technologies and foundational science among young scientists. In respect of protection of Minors, the Company upgrades the facial recognition strategies and enhances facial patrolling mechanism on the established "Parental Guardian Platform" and "Healthy Gameplay System" to further prevent Minors from being addicted to games. The Company also provides interest classes in technology to teenagers in less developed areas to improve their Internet literacy. In respect of public emergencies, the Company established a public emergency platform and improves the social capabilities of handling public emergencies through the donation of emergency equipment, transfer of first-aid technical knowledge and cultivation of first-aid awareness. In respect of the supports to elderly and disabled, the Company encourages "Digital Inclusion" by optimising products for the elderly and people with disabilities under the philosophy of "Leave No One Behind" and "Information Accessibility". Meanwhile, the Company also leverages digital technologies, social media and digital content platforms to provide digital solutions for the preservation and inheritance of traditional culture.

The Company is committed to promoting environmental sustainability and places environmental protection as one of its top priorities. The Company continuously pays attention to the environment and climate change. The Company also actively responds to China's goal in achieving carbon neutrality by announcing the launch of its carbon neutrality plan in January 2021 and releasing *Tencent Carbon Neutrality Target* and *Roadmap Report* in February 2022. The Company commits to carrying out green and low-carbon operations, introducing green and low-carbon concepts to the community and advocating relevant practices, whilst using its digital capabilities to help its partners in achieving low-carbon transformation and to jointly practice low-carbon development.

10. *Fraud risk*

In recent years, fraudulent activities have occurred frequently in the Internet and technology industry and therefore integrity has been an important concern. As the Company continues to develop its business, the form and complexity of its business evolved, and consequently the fraud risk inevitably increased to a certain extent. For example, fraudulent activities caused by collusion between suppliers/business partners and employees can have a negative impact on the reputation and financial position of the Company.

The Company, with its belief in the value of integrity, has zero tolerance for fraud, and is determined to fight against any fraudulent activities. The Company has established effective internal control systems and is continuously improving it. These systems have been strengthened by systematic, transparent control measures and procedures. To enhance and promote integrity, the Company continuously conducts various training for its employees, suppliers, and business partners. For employees, the Company has established the Sunshine Code that the employees shall strictly follow during their employment and in the course of business dealing with suppliers and business partners. For suppliers and business partners, the Company cooperates with them to create an ecosystem with integrity. The Company has signed an Anti-commercial Bribery Declaration with its suppliers and business partners to alert the counterparts the importance of ethical value and to build a healthy and transparent environment for business. Furthermore, the Company has set up an Anti-fraud Investigation Department for years to proactively collect whistleblowing cases from various channels, and to follow up and investigate alleged fraudulent cases on a timely basis. The Company will terminate the employment immediately with any employee who has been found to be involved in any fraudulent activities. The Company may also pass the relevant case to initiate legal proceeding according to the relevant laws and regulations under more serious circumstances. Any supplier/business partner found to be involved in any fraudulent activities will be blacklisted and deprived of the opportunity to work with the Company permanently. The Company will announce to the public those criminal cases and serious abuse-of-power cases that were investigated and handled by the Company via the "Sunshine Tencent" WeChat official platform. This shows the Company's determination to fight against corruption and fraud, as well as its commitment towards creating a virtuous and honest atmosphere within the Company and the industry.

Internal Control

The Company has always valued the importance of the internal control systems and has implemented its internal control systems according to the COSO Framework.

Management of the Company is responsible for the design, implementation and maintenance of the effectiveness of internal control systems. The Board and the Audit Committee are responsible for monitoring and overseeing the performance of management over the internal control systems to ensure its appropriateness and effectiveness.

The Company's internal control systems clearly define the roles and responsibilities of each party as well as the authorisation and approvals required for the key actions of each party. Policies and procedures are in place for the key business processes. This information is clearly conveyed to employees in practice and emphasised the importance of the internal control systems. All employees must strictly follow the policies which cover, amongst other things, financial, legal and operational issues that set the control standards for the management of each business process.

In order to further strengthen the accountability of the management team in the internal control systems of the Company and to assist in determining the effectiveness of such internal control systems, the management team of each business group conducts self-assessment and confirms the internal control status of the business group for which it is responsible. The IC assists management in preparing a self-assessment questionnaire according to the COSO Framework and guides the management of each business group to carry out the self-assessment. The IC is also responsible for collecting and summarising the results of self-assessment. The Chief Executive Officer of the Company reviews this summarised self-assessment of each business group, assesses the general effectiveness of the internal control systems of the Company and submits the written confirmation thereof on behalf of management to the Audit Committee and the Board.

In addition, the IC supervises the establishment of the risk management and internal control systems set up by management, ensures that management has implemented appropriate measures and reports the general situation of risk management and internal control of the Company to the Audit Committee on a quarterly basis. The IA, serving as the independent third line of defence, conducts objective evaluation on the effectiveness of the Company's risk management and internal control systems and reports the results to the Audit Committee.

The Company has also engaged independent professional consulting firms to perform a review of the Group's internal control framework and an assessment of its internal audit quality to ensure their standards are in compliance with international best practices.

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems.

The review process comprises of, among other things, meetings with management of business groups, IA, IC, legal team, and the external auditor, reviewing the relevant work reports and information of key performance indicators, the management's self-assessment on internal control as detailed above and discussing the significant risks with senior management of the Company.

The Board is of the view that throughout the year ended 31 December 2021, the risk management and internal control systems of the Company are effective and adequate.

In addition, the Board believes that the Company's accounting and financial reporting functions as well as the ESG performance and reporting functions have been performed by staff with the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. Based on the report of the Audit Committee, the Board also believes that sufficient resources have been obtained for the Company's internal audit function and that its staff qualifications and experience, training programmes and budgets etc., are sufficient.

SHAREHOLDERS

To enable our shareholders and other stakeholders to exercise their rights in an informed manner based on a good understanding of the Group's operations, businesses and financial information, the Company adopted the shareholders communication policy which aims to ensure that our shareholders and other stakeholders at large are provided with ready, equal, regular and timely access to material information about the Group. The policy also sets out a number of ways to ensure effective and efficient communication with our shareholders and other stakeholders is achieved, including but not limited to our quarterly results announcements, webcasts, responses to shareholders' enquiries, corporate communications (in both English and Chinese, to facilitate shareholders' understanding), posting of relevant information on the Company Website, shareholders' meetings and investment market communications. To facilitate communication between the Company, our shareholders and the investment community, investor and analyst briefings, one-on-one meetings, domestic and international roadshows, media interviews and specialist industry forums are organised on a regular basis and are attended by our directors and designated spokespersons. In addition, the Company Website has been adopted as the designated hub for publication of the Company's announcements, press releases and other corporate communications including the shareholders communication policy and the investor calendar which highlights important dates for Shareholders' information. Our dividend policy is also set out in the "Corporate Governance Report" on page 108 of this annual report and the historical information of dividend payout is available on the "Interactive Share Price Chart & Dividend History" section on the Company Website.

The Company also encourages shareholders' active participation in annual general meetings and other general meetings. Notices to shareholders for annual general meetings are sent to shareholders at least 20 clear business days before the meetings and at least 10 clear business days for all other general meetings to allow sufficient time for their consideration of the proposed resolutions. Our shareholders communication policy also requires appropriate arrangements to be put in place for the annual general meetings to encourage and facilitate shareholders' participation, and the process of the meetings is monitored and reviewed on a regular basis to ensure that shareholders' needs are best served.

The Company's general meetings provide a transparent and open platform for the Company's shareholders to communicate with the Board and the senior management team. The Chairman, other members of the Board and relevant members of the senior management team, under normal circumstances, attend to answer questions raised and discuss matters in relation to the Company in an open manner. Save as Mr Li Dong Sheng and Professor Ke Yang, all directors attended the 2021 AGM and the 2021 EGM, with a view to understanding the views of the Company's shareholders. The company secretary provided the minutes of the 2021 AGM and the 2021 EGM to all directors to have a thorough understanding of the views of the Company's shareholders. The Company's external auditor will also attend the annual general meeting to answer questions relating to the conduct of the audit, the auditor's report and auditor independence.

Pursuant to the Articles of Association, any one or more shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such requests must be sent to the Board or the company secretary at the Company's registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, or by email to cosec@tencent.com, and such meeting shall be held within two months after the deposit of such requisition. If a shareholder wishes to propose a person for election as a director at a general meeting, he/she should provide a written requisition to the Board or the company secretary to call an extraordinary meeting following the procedures set forth above, or lodge a written notice to nominate a person at the Company's Hong Kong principal place of business at 29/F., Three Pacific Place, No. 1 Queen's Road East, Wanchai, Hong Kong, or the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Detailed Procedures for Shareholders to Propose A Person for Election as A Director is also available on the Company Website.

In order to ensure that shareholders' interests and rights are adequately protected, a separate resolution will be proposed for each substantially separate issue at the general meetings, and all resolutions will be voted by poll pursuant to the Articles of Association and the Listing Rules. To ensure that the shareholders are familiar with the detailed procedures for conducting a poll, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from shareholders on the voting procedures will be answered before the poll voting starts. An external scrutineer will be appointed to monitor and count the votes cast by poll. Poll results will be posted on the Company Website and the Stock Exchange's website after each general meeting.

Apart from participating in the Company's general meetings, shareholders and other stakeholders may at any time contact or send enquiries and concerns to us via the Company Website, or by addressing them to the Investor Relations teams, and sending them by post to the Investor Relations, Tencent Holdings Limited, at 29/F., Three Pacific Place, No. 1 Queen's Road East, Wanchai, Hong Kong, or by email to ir@tencent.com. Shareholders may also contact the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, if they have any enquiries about their shareholdings and entitlements to dividends.

DIVIDEND POLICY

The Company endeavours to maintain sufficient working capital to develop and operate the business of the Group and to provide sustainable returns to the shareholders of the Company.

Under the current dividend policy of the Company, dividends may be declared out of the distributable earnings or reserves of the Company. While the dividend payout ratio is not pre-determined, in proposing or declaring any dividend payout, the Board shall take into account the Group's earnings performance, general financial position, debt covenants, future working capital and investment requirements, and other factors that the Board considers relevant and appropriate.

DISCLOSURE OF OTHER INFORMATION

The Company is required to disclose certain information pursuant to the Listing Rules and the CG Code. Set out below is the information which has not been covered above.

Significant Change in the Constitutional Documents

There has not been any change to the Company's memorandum and articles of association during the year ended 31 December 2021.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code. The Company has also adopted an insider dealing policy to govern and regulate securities transactions by employees who are likely to be in possession of inside information relating to the Company, the terms of which are no less exacting than those of the Model Code. The Company has made specific enquiries with the directors and the directors have confirmed they have complied with the Model Code throughout 2021.

Appointment Terms of Non-Executive Directors

Each non-executive director, whether independent or not, is appointed for a term of one year and is subject to retirement by rotation at least once every three years. A director appointed to fill a casual vacancy or as an addition to the Board will be subject to re-election by shareholders at the first general meeting after his/her appointment.

Directors and Officers Liability Insurance

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the directors and officers.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on pages 160 to 168. During the year ended 31 December 2021, the remuneration paid/payable to the Company's external auditor, PwC, was disclosed in Note 8 to the consolidated financial statements. The audit and audit-related services conducted by the external auditor mainly comprise of statutory audits and reviews for the Group and its certain subsidiaries. The non-audit services conducted by the external auditor mainly include tax advisory services for our M&A and other corporate transactions, due diligence services and other services such as ESG assurance service and services relating to risk management and internal control review. Please refer to Note 8 to the financial statements for a breakdown of the fees paid for the key non-audit services.

Framework for Disclosure of Inside Information

The Company has in place a framework for the handling and disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the shareholders and stakeholders to assess the latest position of the Group.

Under the framework, if an employee is aware of any project, transaction, information or situation which he/she thinks could potentially be inside information, he/she should contact the Head of Compliance and Transactions Department, the general counsel and the company secretary as soon as possible. Legal analysis and consultations with the Company's directors and senior executives will be made so as to identify whether any such information constitutes inside information and is required to be disclosed to the public pursuant to the SFO. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

Environmental, Social and Governance Report

1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRATEGY

Tencent's Environmental, Social and Governance ("ESG") strategy is guided by our long-established mission and vision, "Value for Users, Tech for Good". The mission and vision, in which our employees respond to what they like most about Tencent in the annual employee surveys, is the driving force behind the incorporation of ESG considerations into our products, services and business operations. In view of the rapid changes in societal and business environments, including the COVID-19 pandemic, extreme weather, macroeconomic challenges, regulatory tightening, mobile internet ubiquity and new enabling technologies, as well as the digital upgrade of local economies, we have strengthened our capabilities to manage the associated risks and nurture new opportunities. Since April 2021, we have taken an innovative and coordinated approach to create value for our users, business partners and the society, and to strengthen our foundation in ESG governance. Specifically:

- We upgraded our corporate strategy to promote "Sustainable Innovations for Social Value" alongside our existing consumer internet and industrial internet strategies.

- We integrated our corporate social responsibility and charitable activities to form a new Sustainable Social Value ("SSV") organisation. SSV is funded with an initial capital of RMB50 billion to invest in key areas, including research in basic sciences, education innovation, rural revitalisation, carbon neutrality, primary healthcare, philanthropic platform, assisting with public emergencies, technologies enabling the silver generation, enhanced accessibility, and digitalisation of culture. We allocated an additional RMB50 billion to support the "Common Prosperity" initiative in China.

- We established a new ESG governance structure to support the Board's expanded oversight on the Company's ESG matters, coordinate internal priorities and engage stakeholders via the ESG Working Group and the ESG Coordination Office.

Our ESG strategy focuses on the management of risks and the pursuit of opportunities, unlocked by the ongoing convergence of physical and virtual worlds as well as the digital transformation enabling industries to extend their presence online and expand globally. The implementation of our ESG strategy can be summarised as follows:

1. Business operations
   - Operate in compliance with applicable laws and regulations;
   - Operate business with integrity and protect the interests of shareholders and stakeholders; and
   - Provide our employees a safe, inclusive and equitable work environment; empower them to pursue professional growth.

2. Users
   - Protect the privacy of our users and the security of their data and digital properties;
   - Listen to feedback from users and actively respond to their needs, enquiries and complaints, based on which we continuously enhance the quality of our products and services; and
   - Protect our users, especially Minors and content creators; take responsibility for the content on our online platforms.

3. Business partners
   - Assist industries, especially small and medium-sized enterprises, in managing digital transformation;
   - Ensure fair and equitable treatment when dealing with our business partners; encourage them to give us feedback on our business practices; and
   - Combat illegal or unwarranted behaviours that are harmful to long-term business partnerships by empowering our IC and Anti-Fraud Investigation Department.

4. Community and industry
   - Increase community investment, and leverage our platforms and technologies to implement “Tech for Good”;
   - Create and promote a digitally inclusive environment; and
   - Contribute to the advancement of the internet industry via open-source partnerships and open platform collaboration.

5. Environment

- Consider the environmental impact of our products and services during the development and operation stages;
- Reduce our carbon footprint and increase renewable energy use, ultimately reaching net-zero in operations and supply chains by 2030; and
- Assist in driving the transition towards a low-carbon society via the promotion of a low-carbon lifestyle for users, and technologies that enhance the management of climate change for enterprises.

Our shareholders and stakeholders play an important role in our ESG strategy and implementation. The Company has commissioned an independent consultant to conduct online surveys and interviews with our stakeholders, and integrated their feedback into our materiality assessment. For details of our materiality assessment, overall ESG performance and the assurance report, please refer to the standalone ESG report[1] to be disclosed on the Company's website: www.tencent.com/esg.

2. ESG GOVERNANCE STRUCTURE

ESG governance at Tencent is overseen by the Board's Corporate Governance Committee and implemented by the Company's ESG Working Group.

In 2021, the Corporate Governance Committee expanded its focus to ESG oversight. It shall report regularly to the Board relevant ESG issues as well as the progress of key performance indicators ("KPIs"). The Corporate Governance Committee shall exercise oversight via inquiries, regular updates on the Company's ESG initiatives, reviewing and approving annual ESG reports submitted by the ESG Working Group.

The ESG Working Group (the "Working Group") is a cross-functional body established in January 2022 and reports to the Corporate Governance Committee twice a year. The Working Group, which is tasked to advance Tencent's overall ESG performance and promotes internal coordination, operates on three levels:

- ESG Steering Team leads the Working Group to set out the Company's ESG strategy and priorities. Co-chaired by the Chief Strategy Officer and Chief Financial Officer, it has a good representation of senior executives from various business groups or functional lines covering specific ESG topics.

[1] Our standalone ESG report will be downloadable from our Company Website. We decided to distribute electronic versions only in favour of nature conservation and carbon emissions reduction. Our ESG report will only be published on a standalone basis for the financial years commencing on or after 1 January 2022.

- ESG Coordination Office supports the ESG Steering Team in identifying ESG objectives and collaborating with various business and functional teams to develop action plans and track progress. In addition, it serves as the secretariat of the Working Group and reports the Company's ESG matters to the Corporate Governance Committee regularly.

- ESG Champions comprise of employee representatives from various business groups and functional teams covering specific ESG topics. Leveraging their respective areas of expertise, ESG Champions drive the implementation of the Company's ESG initiatives and provide regular updates to the ESG Coordination Office.

We will review the composition of the Working Group from time and time to ensure the Corporate Governance Committee is kept abreast of the Company's ESG initiatives and overall performance.

3. BOARD STATEMENT

The Board oversees ESG matters via the Corporate Governance Committee and is engaged in formulating and implementing the Company's ESG strategy. The Corporate Governance Committee supported the Company's decision to strengthen ESG governance via the establishment of the ESG Working Group, where the ESG Coordination Office serves as the secretariat.

The Board was involved in the materiality assessment and prioritisation of key ESG topics of Tencent, which was conducted by an independent professional consultancy. The Board has participated in surveys and interviews that solicit views and recommendations on ESG topics that may have significant influence on the Company's long-term sustainability (please refer to the sections titled "Stakeholder Engagement" and "Assessment on the Materiality of the ESG Topics" for more details). Key ESG risks have been incorporated into the Company's comprehensive risk management system. From principal business leaders to senior management, the Group has formulated risk response measures by considering the possibility, impact, and trends of key ESG risks. The Board has regularly reviewed these key risks at the Board and Corporate Governance Committee meetings and has made recommendations to the measures taken.

During the reporting period, the Board has reviewed the Company's carbon neutrality plan, progress in certain sustainable social value projects and the annual ESG report.

4. MATERIALITY

Stakeholder Engagement

We regularly engage with our stakeholders to learn about their expectations and feedback on our ESG performance. Our stakeholders include users, employees, government and regulatory bodies, investors, business partners, the media and public, and non-governmental organisations ("NGOs"). Our communication channels include but are not limited to regular meetings, investor and press conferences, satisfaction surveys and social media platforms.

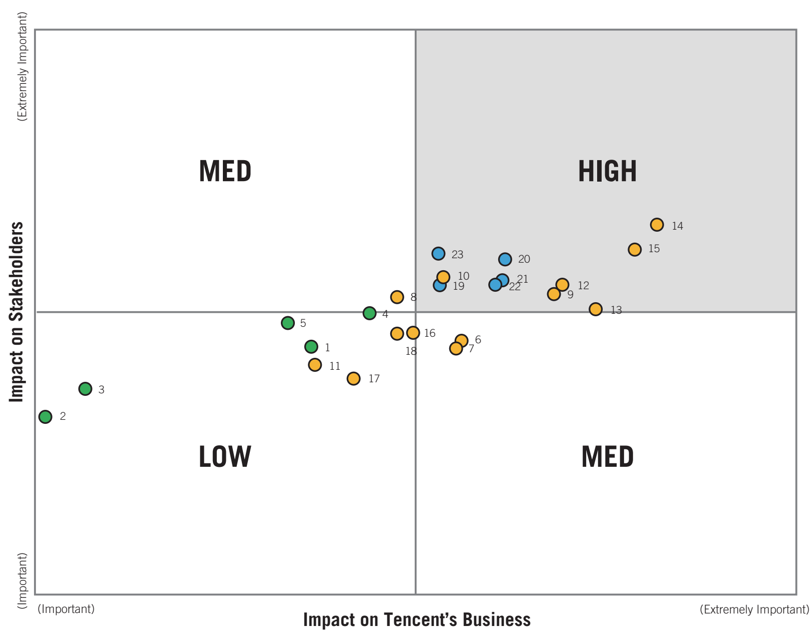
Assessment on the Materiality of the ESG Topics

To identify and understand various ESG topics that are of high priority to Tencent, we have engaged with an external professional agency to conduct a materiality assessment. The assessment process is as follows:

1. Identify a list of potential ESG material topics by taking into consideration: (i) common issues raised by internal and external stakeholders, and (ii) topics highlighted in recognised reporting frameworks, including the ESG Reporting Guide, the Task Force on Climate-Related Financial Disclosures ("TCFD"), the Global Reporting Initiative ("GRI") standards, and the Sustainability Accounting Standards Board ("SASB") standards.

2. Identify key concerns via interviews and online surveys across stakeholder groups, including the Board members, senior executives, employees, customers (users and business partners), suppliers, investors, governments and regulators, academics, media and NGOs.

3. Prioritise relevant material ESG topics through materiality mapping.



1	Climate Change & Greenhouse Gas Emissions
2	Waste Management
3	Water Management
4	Energy Use
5	Environmental Impact of Products & Services
6	Employee Rights & Benefits
7	Employee Career Development
8	Diversity and Equal Opportunity
9	Employee Health and Safety
10	Labour Standards
11	Supply Chain Management
12	Social Impact of Products & Services
13	Responsibility of Content
14	Data Privacy and Cyber Security
15	Protection of Minors
16	Digital Inclusion and Digital Literacy
17	Community Investment
18	Support Common Prosperity
19	Anti-trust
20	Intellectual Property
21	Anti-corruption
22	Corporate Governance
23	Active Stakeholder Engagement

The material topics which fell into the upper right quadrant of the matrix were defined as highly material to the Company. These material ESG topics include Data Privacy and Cyber Security, Protection of Minors, Responsibility of Content, Social Impact of Products & Services, Employee Health and Safety, Intellectual Property, Anti-corruption, Corporate Governance, Labour Standards, Active Stakeholder Engagement, and Anti-trust.

5. OUR CULTURE

The Company is committed to strengthening our corporate culture, which is built upon our values, vision and purpose. Our values are integrity, proactivity, collaboration and creativity.

- Integrity means to uphold principles, ethics, openness and fairness;
- Proactivity means to pursue positive contributions, volunteer for responsibility and push for breakthroughs;
- Collaboration means to be inclusive and collaborative, and strive to progress and evolve; and
- Creativity means to push for breakthrough innovations, and explore the possibilities of the future.

Our values and culture, which crystallised into our mission to create "Value for Users, Tech for Good", has guided the Company to incorporate social responsibility into our products and services, help industries digitally transform and collaborate with stakeholders to contribute to the sustainable development of society. The Company has continued to promote our culture and adopt various policies and initiatives to provide additional guidance to our employees. For example:

- We have developed the *Tencent Sunshine Code of Conduct* (the "*Sunshine Code*") which, amongst others, sets the ethical standards and behaviour expected of our employees and prohibits activities that are not in compliance with applicable laws and regulations, and published an *Anti-fraud and whistleblowing Policy* that outlines multiple whistleblowing channels.
- We voluntarily pledged to reach carbon neutrality in our operations and supply chains, and to transition to 100% green power by 2030.
- We developed technologies and software-as-a-solution products, including but not limited to WeCom and Tencent Meeting, to help industries reduce their carbon footprint and accelerate digital transformation.
- We have developed technologies and solutions for social well-being, including but not limited to mobile applications suitable for the silver generation, enhanced accessibility solutions for communities with activity limitations as well as youth programmes that inspire creativity and teach coding skills.

6. ENVIRONMENT

We are committed to protecting the environment and conserving natural resources to ensure sustainability for future generations. In 2021, we voluntarily pledged to reach carbon neutral for our operations and supply chains by 2030, and announced our commitment to fully transition to green power.

From operating our platforms daily to building our network of data centres, we have considered energy conservation, waste reduction, ecological impact, and climate-related risks in our decision-making process and policies. This has enabled us to meet the applicable regulatory requirements in China, including the *Energy Conservation Law of the People's Republic of China* and *Environmental Protection Law of the People's Republic of China*. In 2020, China announced that the country would reach carbon neutrality by 2060 and may introduce new regulatory requirements to ensure that this target can be met. The Company will closely monitor the latest developments and endeavour to tackle climate change.

6.1 Tackling Climate Change

The risks and impacts of climate change are becoming increasingly significant. Tencent is committed to identifying and mitigating the impacts of climate change on our strategy, business operations, and financial performance. In 2021, we joined the global climate action (for example, achieving the objectives of the *Paris Agreement* and China's "3060" goal) by pledging to achieve carbon neutrality in our operations and supply chains (including Scope 1, 2 and 3 emissions) as well as transition to 100% green power by 2030.

Governance

Climate-related risks and issues are considered and monitored by the Board via the Corporate Governance Committee. Climate change is regarded as a specific issue for revision and discussion. During the reporting period, the Corporate Governance Committee has reviewed the Company's carbon footprint, net-zero goal, and decarbonisation pathways.

Strategy

We acknowledge that climate change brings physical and transition risks and opportunities to our business. Our physical risks primarily result from acute and chronic risks caused by climate change, while transition risks mainly come from the market and policy changes that arise during the transition to a low-carbon economy. Reputational risks are linked to the potential failure in fulfilling our commitment to developing into a low-carbon business. On the other hand, climate change would also provide us with the opportunity to improve our energy efficiency and develop low-carbon technologies and climate-resilient products and services.

In terms of physical risks, acute climate events caused by climate change, such as frequent typhoon weather and rainstorms, may affect our operational continuity. On the other hand, chronic risks, such as high temperatures and droughts may increase energy consumption and operating costs for our offices and data centres. Rising sea or water levels may lead to loss of assets in certain regions. We have considered the impact of regional climate when allocating assets and have formulated emergency measures for acute climate events to avoid and reduce operational impacts or asset losses.

There are transition risks as well. In the context of accelerating the transition to a low-carbon economy, if we fail to effectively control or reduce the carbon emissions generated from our operations and provide low-carbon services and products, it may result in reputational damage, loss of users, or market share reduction. Our carbon neutrality initiative follows the principle of "prioritising the use of active emissions reduction measures while keeping the use of carbon offsets to a minimum". In addition to achieving our carbon neutrality goal, we aim to play a leading role in the transition towards a low-carbon society by (i) fostering open innovation and knowledge sharing and (ii) leveraging the reach and influence of our platforms and products.

We believe that climate change has also brought various opportunities to Tencent. By improving the efficiencies of energy consumption and water use at our office buildings and data centres, we could optimise operating costs and minimise sensitivity to changes in carbon trading prices. We provide various products and services, including Tencent Cloud, WeCom, Tencent Meeting to help our users reduce their carbon footprint and accelerate their digital transformation.

Risk Management

We have integrated ESG risks into the Company's overall risk assessment and management system, including risks related to climate change. As part of our climate risk assessment, we consider the probability and the relative impact of the risks on our Company.

In 2021, the Board and senior management evaluated the relative impacts of the climate-related risk factors, including acute physical risk, chronic physical risk, policy & legal risk, technology risk, market risk, and reputational risk on the business, and provided mitigation and adaptation responses. For acute physical risks, we have taken extreme weather events, such as rainstorms, typhoons and high temperatures into consideration during our site selection, construction, and operations of our data centres. We have also drafted corresponding mitigation and adaptation measures to address the potential impacts of these events.

Metrics and Targets

We pledge to reach carbon neutrality across our operations and supply chains by 2030, and to switch our electricity supply to 100% green power or renewable energy where feasible. We have signed on the Science-Based Targets initiative ("SBTi") and will work to refine targets for our decarbonisation pathways in the following months.

Based on the *Greenhouse Gas ("GHG") Protocol*, we began an internal review of our greenhouse gas emissions and used 2021 as the base year to develop our carbon neutrality roadmap and decarbonisation pathways. Our total emissions of 5.111 million metric tons of carbon dioxide equivalents includes:

- Scope 1: Direct emissions from operations owned or controlled by the Company (Scope 1) amounted to 0.019 million MtCO2e, or 0.4% of the emissions.

- Scope 2: Indirect emissions generated by purchased electricity and other purchased energy (Scope 2) amounted to 2.349 million MtCO2e, or 45.9% of the emissions.

- Scope 3: Indirect emissions generated from the supply chains (Scope 3) amounted to 2.743 million MtCO2e, or 53.7% of the emissions.

We followed the best practice of prioritising the use of active emissions reduction measures while keeping the use of carbon offsets to a minimum. We will reduce or avoid emissions via a series of measures, including energy-saving initiatives, technological and management innovations to increase power use efficiency[2], transition to green power or renewable energy by procurement as well as building and investing in renewable energy projects. Steps to achieve our targets can be found in the "Energy Management" section.

We will help mobilise the transition to a low-carbon society by leveraging the influence of our products and technological capabilities. For our users, we will promote a low-carbon lifestyle. For our business partners, we will assist them in their low-carbon transformation by providing innovative products and enabling technologies.

Details of Tencent's carbon neutrality goals can be found in the *Tencent Carbon Neutrality Target and Roadmap Report*.

2 Including the construction emission reduction, such as Dachan Bay.

6.2 Energy Management

Energy Management in Office Buildings

Environmental considerations are incorporated into the design, construction, and operation of our office buildings. All our new office buildings in China are designed and constructed to attain the Green Building Two Star standards.

Our "Management + Technology + Procedure" approach underpins our energy conservation measures, through which:

- We manage our office building's energy and water consumption, through an online Tencent Facility Management system. In addition, we have introduced a real-time monitoring system for self-owned buildings, which provides statistical analysis on electricity and water consumption.

- We continuously seek ways to improve our energy efficiency by regularly evaluating our office buildings' energy consumption and optimising our energy consumption through innovative technologies. In 2021, we executed energy-saving renovation projects in Tencent Binhai Towers: (i) we replaced LED lighting in our public areas, optimised lighting duration for our underground car parks, and (ii) installed thermostats and fan coil systems with automatic switches in our IT machine rooms and power distribution machine rooms.

- Our energy-saving policy drives our day-to-day energy-saving measures. Office lights and air conditioners are automatically turned on/off based on the schedule of employees. Whenever employees leave the workplace or meeting rooms, they are also encouraged to manually switch them off. We also have stringent onsite office management in place with routine inspections, where the property management companies closely monitor the electricity consumption.

By establishing the "Management + Technology + Procedure" system, we have successfully improved our energy use efficiency, thereby achieving our targets (shown in the Environmental Targets section).

Our efforts in energy-saving at office buildings have earned certifications of international sustainable design standards. Tencent Binhai Towers, Tencent Beijing Headquarters, and Chengdu Tencent Towers A and B have obtained LEED Gold or Platinum certifications.

Energy Management in Data Centres

We have always focused our efforts on improving resource efficiency and increasing the proportion of renewable energy use in our data centres, which are pivotal to reducing our carbon footprint.

We consider the green aspects of our self-built data centres, beginning from site selection, design and technologies to operations and management systems. Each data centre implements the applicable resource conservation and emission regulation measures outlined in its *Operational Policy*, which includes reducing GHG emissions, water consumption, and the process to handle hazardous and non-hazardous waste appropriately. In terms of energy conservation, we implemented the following measures:

- In the site selection phase, we prioritise areas with abundant renewable and clean energy to power our data centres. For example, the sites in Zhangjiakou Huailai are rich in wind and solar resources, and the sites in Qingyuan, Chongqing, and Guian have strong hydropower and other forms of clean energy. With the development of these data centres, we continue to invest in a wide range of renewable energy technologies, such as photovoltaic systems, hydropower, and wind power technologies.

- Regarding innovative designs and technologies, Tencent's fourth-generation T-block data centre uses energy-saving technologies that include (i) High Voltage Direct Current technology for electrical systems, (ii) liquid cooling technology, and (iii) indirect evaporative cooling units. These have allowed us to lower the power usage effectiveness ("PUE") to 1.06[3].

- In terms of operations and management systems, our proprietary AI platform can automatically and accurately monitor energy data in real-time and conduct refined classification, statistics, and scientific modelling to provide emission reduction solutions.

To increase the proportion of renewable energy use, we actively participate in green power trading and explore distributed energy systems. In 2021, we explored the feasibility of green power trading with our newly assembled team of green energy professionals. In September 2021, we made our first attempt in purchasing 60 million kWh hydropower for our Chongqing Cloud Data Centre, allowing the data centre to be supported by 100% renewable energy from August to December 2021. At the Tencent Qingyuan Qingxin Data Centre campus, we built a rooftop photovoltaic power generation system that has generated over 2 million kWh of electricity from September to December 2021.

In terms of building green data centres, we have completed environmental impact assessments on all self-built data centres and have obtained approvals or filings in accordance with the *Law of the People's Republic of China on Environmental Impact Appraisal*. We also pursued third-party building certifications to validate our commitment. In 2021, Tencent Tianjin Data Centre earned a LEED Platinum certification.

[3] Lowest PUE achieved in the Qingyuan pilot site.

6.3 Waste Management

In response to the national call and local policy on garbage classification, we reinforced recycling practices by educating our employees on waste management. On-site inspections are performed to ensure proper garbage classification. Waste generated in office buildings is categorised and transferred to a government-authorised waste treatment agency. In 2021, we strengthened the waste management of Tencent-owned offices by tracking and monitoring our generated waste.

We have implemented an electronic waste recycling and disposal programme at our data centres. The programme first examines whether old servers can be reused before they are dissembled. Otherwise, obsolete servers and other electronic waste, including waste computers, notebooks and monitors will be recycled and reused by qualified second-hand vendors.

We have entered into agreements that guarantee 100% of our hazardous waste will be handled in strict compliance with relevant regulations. These types of wastes include lead-acid accumulators and destroyed hard drive components from data centres and waste toner and waste ink cartridges from office printers.

6.4 Water and Other Emission Management

Our impacts on the environment and natural resources primarily come from greenhouse gas emissions, energy consumption and waste production, where relevant policies and measures can be found in the previous sections. This section elucidates our strategies around water and other emission management.

We have implemented water-saving measures across our office buildings, including utilising water-saving appliances, monitoring daily water consumption, setting water-use targets, and educating employees on water conservation. To accelerate the efforts around water conservation at our data centres, we are preparing to kickstart a few research projects on water cooling and recycling.

For Tencent Binhai Towers and Beijing Headquarters, we monitor the levels of air pollutants, including PM2.5, PM10, carbon monoxide, and carbon dioxide inside and outside the buildings with an online monitoring system, which is backed up by a manual measuring system. A smart ventilation system is installed to respond to the changing carbon monoxide and carbon dioxide levels in our underground car park and office spaces. For our office cafeterias, the cooking ventilation comprises a fire-resistant environmental exhaust hood that removes oil droplets, activated carbon filtration and air ionisation.

Environmental Performance Summary

Unless otherwise specified, the following environmental targets and performance data cover Tencent's office buildings and data centres in the Mainland of China and Hong Kong.

Environmental Targets

In 2021, we formulated environmental targets. The progress is shown in the following table.

Targets	Progress Updates in 2021	Section with Detailed Steps to Achieve the Targets
• Achieving carbon neutrality by 2030 across our operations and supply chains. • Using green power for 100% of all electricity consumed by 2030.	Target and baseline have been set recently. Target has been set recently.	Tackling Climate Change
• For any given year, the property management companies of all Tencent-owned office buildings in the Mainland of China will obtain the environmental management system (EMS) certification. • By the end of 2021, Tencent Beijing Headquarters would have obtained LEED Gold certification. • Using the electricity consumption per capita in 2019 as a benchmark, the electricity consumption per capita in all Tencent-owned office buildings in the Mainland of China will be reduced by 15% by the end of 2025. • Using the water consumption per capita in 2019 as a benchmark, the water consumption per capita in all Tencent-owned office buildings in the Mainland of China will be reduced by 15% by the end of 2025.	The target for 2021 has been achieved. The target for 2021 has been achieved. The interim target for 2021 has been achieved. The interim target for 2021 has been achieved.	Energy Management in Office Buildings
• For any given year, the average annual PUE of self-built data centres will not be greater than 1.35. • For any given year, at least one additional data centre will obtain ISO 50001 or GB/T 23331 energy management system certification.	The target for 2021 has been achieved. The target for 2021 has been achieved.	Energy Management in Data Centres
• For any given year, all Tencent-owned office buildings in the Mainland of China will categorise waste. • For any given year, all destroyed hard drive components and waste lead-acid accumulators will be collected by qualified vendors for harmless disposal.	The target for 2021 has been achieved. The target for 2021 has been achieved.	Waste Management

Environmental Performance

Indicators	As at 31 December 2021
Total GHG emissions (Scope 1, 2, 3) (million MtCO2e)[1,2,3]	5.111
Scope 1 emissions (million MtCO2e)[2,3]	0.019
Scope 2 emissions (million MtCO2e)[2,3,4]	2.349
Scope 3 emissions (million MtCO2e)[2,3,5]	2.743
Total GHG emissions per unit of revenue (MtCO2e/RMB Million)	9.12
Hazardous waste (tonnes)[6]	324
Hazardous waste per unit of revenue (tonnes/RMB Million)	0.00058
Non-hazardous waste (tonnes)[7]	29,850
Non-hazardous waste per unit of revenue (tonnes/RMB Million)	0.053
Total energy consumption (MWh)[2,8]	4,375,253
Direct energy consumption (MWh)	66,293
Including: Gasoline (L)	34,160
Diesel (L)[9]	3,261,448
Natural gas (m^3)	3,111,654
Indirect energy consumption: Purchased electricity (MWh)[2,10]	4,308,960
Total energy consumption per unit of revenue (MWh/RMB Million)	7.81
Renewable energy purchased (MWh)	63,000
On-Site renewable energy (MWh)	2,334
Average PUE in data centre[11]	1.32
Water consumption (tonnes)[2,12]	6,201,652
Water consumption per unit of revenue (tonnes/RMB Million)	11.07
LEED certified office space (m^2)	887,700
Number of LEED certified data centres	1

Note:

1. Due to the nature of the business, the material air emissions of the Company are GHG emissions, arising from fuels and purchased electricity produced from fossil fuels.

2. We expand the 2021 reporting scope of our environmental performance to cover all office buildings and data centres in the Mainland of China and Hong Kong within our operational control. Leased data centres that we do not have operational control are excluded. The reporting scope of 2020 covered only the main office buildings and main data centres in the Mainland of China. We adjusted the reporting scope to align with industry best practices; such an adjustment is the primary driver against the year-on-year increases of the environmental performance reported, while another key driver is the organic growth of our businesses.

3. GHG inventory includes carbon dioxide, methane and nitrous oxide. GHG emissions data as at 31 December 2021 is presented in carbon dioxide equivalent. The GHG calculation methodology has been updated based on the *2006 IPCC Guidelines for National Greenhouse Gas Inventories* issued by the Intergovernmental Panel on Climate Change ("IPCC"), the *IPCC Fifth Assessment Report*, and the provincial electricity emission factors published by the Ministry of Ecology and Environment of China.

4. The adjusted Scope 2 emissions in 2020 is 1.71 million MtCO2e by applying the 2021 reporting scope.

5. Scope 3 emissions are calculated based on broad-based assumptions with emission factors published in the *UK Government GHG Conversion Factors for Company Reporting* and *EPA Emissions & Generation Resource Integrated Database*. The carbon footprint of leased data centres both in China and international markets, where we do not have operational control, is included in Scope 3 accounting.

6. Hazardous wastes produced at office buildings mainly includes waste toner cartridges and waste ink cartridges from our printers. Hazardous wastes produced by data centres mainly includes waste lead-acid accumulators and destroyed hard drive components.

7. In 2021, we reported the actual weight of garbage collected at our office buildings and have enhanced waste accounting for non-hazardous wastes. The garbage in 2020 was estimated with reference to the *Handbook on Domestic Discharge Coefficients for Towns in the First Nationwide Census on Contaminant Discharge* published by the State Council of the People's Republic of China in 2008. Non-hazardous wastes produced by data centres mainly includes obsolete servers.

8. Total energy consumption is calculated based on the data of purchased electricity and fuel with reference to the coefficients in the *National Standards of the PRC General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2020).*

9. Diesel is consumed by backup power generators.

10. The adjusted total indirect energy consumption in 2020 is 3,128,144 MWh by applying the 2021 reporting scope.

11. PUE of data centres is a ratio of the total energy consumption to the energy consumption of IT equipment. During the reporting period, the annual average PUE is calculated by considering all data centres within our operational control that have operated for more than 12 months with a minimum utilisation rate of 30%.

12. Water supply mainly comes from the municipal water supply and there is no issue in sourcing water. In January 2021, we upgraded our capability in water management at our office buildings with the introduction of the Tencent Facility Management system, which allowed us to track, record and analyse water consumption data every month. This upgrade will lay a solid foundation for our expanded reporting scope in the future. Comparable historical numbers are not available as we have only partly collected data at some of our leased sites, where the water usage was managed by third-party property management companies in 2020.

13. Data regarding packaging materials are not applicable to the Company.

7. OUR PEOPLE

Employees are the most valuable asset of Tencent. We believe that fostering a sustainable working environment and investing in the development of our employees are crucial to maintaining the long-term competitiveness of the Company. Our employment practices comply with the *United Nations Declaration of Human Rights*, as well as applicable local laws and regulations in the markets where we operate.

7.1 Rights and Benefits

Labour Practices

Our employment practice complies with relevant national and regional legislations such as *the Labour Law of the People's Republic of China* on working hours, training, social insurance and welfare, and health and safety. We offer a flexible work schedule for our employees so that they can achieve greater work-life balance and autonomy. We strictly prohibit child labour and any forms of forced labour. All applicants are asked to provide proof of their educational backgrounds, qualifications, and work experiences. To ensure the legitimacy of the information, a due diligence agent will review and verify the details. Our Group Procurement Department requires suppliers to sign the *Corporate Social Responsibility Commitment* and operate in accordance with our requirements concerning child labour and forced labour. In the case of any violation of the rules, measures and investigations will be taken immediately in accordance with the applicable laws and regulations. In 2021, there were no violations related to child labour and forced labour.

We value our relationship with our employees and handle employee departure strictly in accordance with the applicable local laws and regulations. An exit interview is conducted with each departing employee to understand the reasons for their departure and where we can improve as an employer.

Equality, Diversity and Inclusion

In addition to regulatory requirements, the protection of human rights and fundamental freedoms have been codified and enforced through our internal policies, including the *Sunshine Code*. We condemn and prohibit discrimination against any employees and job applicants on the basis of their nationality, race, religion, sex (sexual orientation and gender identity), age, or disability.

Our corporate culture supports diversity and inclusion. Employees and management are provided with cross-cultural training and workshops. To foster a community where women can be empowered by each other, we have launched the Women's Leadership and Empowerment initiative, which calls on outstanding female employees to share their stories in the workplace. In 2021, we collaborated with the United Nations Development Programme ("UNDP") to produce inspiring videos and articles about women in the technology industry. By the end of 2021, 25% of our managerial positions were held by female employees. We are committed to inspiring and promoting women in leadership across multiple functions and management levels.

We support employees who are starting a family with appropriate benefits, including maternity/paternity leave, breastfeeding leave, parental leave, flexible working hours, maternity allowance and family insurance.

We provide applicants and employees access to grievance procedures, where job applicants can raise issues related to discrimination through surveys after interviews, and employees can report workplace discrimination through email and our internal grievance platform. In case of such a report, an independent investigation will follow, and remedies will be implemented accordingly.

In 2021, we received the annual China's Best Employer Award organised by Zhaopin and Peking University Social Survey Research Centre, and the Most Caring Employer for Women Award by Lagou.com, a popular job-seeking platform in China.

Compensation and Benefits

We offer our employees an equitable and competitive compensation and benefits package. It aims to attract, motivate, and retain talents as they develop their long-term career with the Company. Our remuneration and bonus system, which includes salary, special and year-end bonuses, and share option and share reward schemes, is performance-based and designed to reward employees for their outstanding performance.

The primary benefits system complies with the relevant laws, regulations, and current market practices. On this basis, we offer a well-established and distinctive welfare programme for employees.

Under our leave scheme, employees can enjoy fully-paid annual leave and sick leave, half-paid personal leave, and a fully-paid Chinese New Year leave, which are above the statutory standards. New fathers and mothers are entitled to take fully-paid paternity or maternity leave. For parents with children under the age of three, our updated leave scheme provides fully-paid parental leave each year. In addition, all employees are entitled to one day of fully-paid volunteer leave per year.

We have put in place housing benefit programmes, namely the Tencent Anju Plan and Yiju Plan. Since 2011, Tencent Anju Plan has provided interest-free loans to certain employees in the Mainland of China, where the skyrocketing property price misinformation has placed a lot of pressure on first-time home buyers. The Yiju Plan, launched in 2016, provides recent graduates with a rental subsidy to help reduce their financial burden as they start their careers. In 2021, we raised the upper limit of interest-free loans under the Tencent Anju Plan and increased the rental subsidy under the Tencent Yiju Plan.

In November 2021, we announced the introduction of a new benefit scheme to reward long-serving employees to be implemented in 2022. On top of the statutory retirement plan, our employees will be provided with a package which includes customised souvenirs, a long-service gratuity, and a retirement honorarium when they legally retire from Tencent. Incumbent employees who have served the Company for over 5 years will be provided with long-term health insurance. Incumbent employees who have worked for over 10 years will be given customised souvenirs and an additional 10-day leave. Incumbent employees who have worked for over 15 years will be offered lifetime health insurance and the option to retire early with a retirement package. Employees who have worked for over 20 years will receive a tailor-made commemoration gift package and customised employee badge.

We strive to provide employees with a wide variety of health-related benefits. For more details related to the specific benefits, please refer to the "Health and Safety" section.

Communication

We engage with our employees through various communication channels, including annual gatherings, internal forums and emails. Our objective is to foster a culture where employees are encouraged to freely express their views. We also respond and address employees' concerns throughout their career development and learning process. Every year, we conduct a company-wide anonymous employee engagement and satisfaction survey through an independent third-party agency. Based on the survey analysis, our Human Resources Department works with managers to develop action plans to strengthen the overall performance and development accordingly. In 2021, a total of 46,437 employees responded to the annual survey, which revealed greater engagement and overall satisfaction rates. The top three aspects employees were most satisfied with were "Culture/Values", "Tech for Good", and "Company's Future Development". For three consecutive years, "Culture/Values" received the highest recognition from our employees, scoring over 85% satisfaction rate.

7.2 Growth and Development

We provide a career development system and professional training for our employees as they build their careers at Tencent. In 2019, we updated our *Employee Career Development Management Policy* to better support the development of our employees.

Career Path System

There are two internal career development channels, namely a professional channel and a management channel. The professional channel branches out to multiple fields of expertise, and each field further diversifies into various development paths with built-in tiers of seniority. The management channel is more streamlined. Our employees can choose to take the development channel that is most suitable for their career at Tencent. These approaches enable our employees to develop their careers in a thoughtful manner and be recognised for their contributions to the Company.

We have also built a mechanism for employees who wish to pursue a new direction in their careers within Tencent's diverse business portfolio. Huoshui Programme ("HSP"), an internal talent transfer portal, was launched in 2012. Employees can apply for a role across various functions and regions after their first year of employment. In 2021, HSP facilitated over 4,000 internal transfers. It greatly boosted the vitality of the Company as it brought more talents from different backgrounds to our core products and fast-growing businesses. For those who are planning to relocate to another city or country, HSP can be an alternative option for them without leaving the Company. Our effective talent allocation programme was used as a case study by the Harvard Business School previously and was included in the case library of Tsinghua School of Economics and Management in 2021.

Training Programmes

Established in 2007, Tencent Academy runs a suite of training programmes such as on-boarding, on-the-job training and leadership training to support employees at every stage of their careers. As employees gradually gain work experience and promotion opportunities, we offer them a curated series of relevant courses to complement their development and learning goals. The Academy also offers employees qualification programmes and monetary rewards for those who have successfully obtained certifications. In addition to on-site training, Tencent Academy also provides an online learning platform that enables employees to learn anytime, anywhere.

To help employees of different positions address various professional needs, Tencent Academy offers courses on products, operational skills, technology, data analysis, marketing, design, risk management, customer engagement, and many more. As of 2021, Tencent Academy has offered 784 types of courses, of which 111 of them were recently added. These courses were offered all year round and added up to 12,000 classes in total. The average training hours and participation rate were over 40 hours and 99.61% respectively.

Tencent Academy invited experts to share their knowledge on scientific innovation, technology, and product design at the Tencent Technology Week in October 2021 and Tencent Design Week in December 2021, as well as other professional events. We believe that these opportunities can inspire and help employees gain new perspectives for their personal growth. In the spirit of sharing, we have an internal interactive platform for senior employees or domain experts to share their experiences with employees. To promote capacity building within our industry's value chain, we have made some of our training resources available to certain business partners and investee companies.

Performance Evaluation and Promotion

To encourage continuous growth and development, employees receive regular objective and fair assessments regarding their performance. A merit-based incentive and performance management system are in place to streamline our assessment processes and ensure consistency across the Company. Employees are expected to write their self-evaluation twice per year, followed by comprehensive feedback provided by their direct supervisor. In addition to the bi-annual evaluation, we encourage supervisors to communicate with their subordinates regularly in order to help employees grow and succeed.

Employees may apply for promotion after their interim and year-end performance reviews, provided that they satisfy the requirements with regard to the length of service and performance. Depending on the work scope, the promotion will be reviewed and considered by the relevant internal committee.

In case of disagreement on the performance and promotion assessment results, employees can appeal through our grievance procedure and request a re-assessment via our independent internal promotion management platform.

In 2021, we increased the transparency of the review process by encouraging colleagues to attend promotion presentations given by individuals from similar professions. We believe the events can help employees develop a deeper understanding of relevant career trajectories and requirements.

7.3 Health and Safety

We are committed to supporting the well-being of our employees. To prevent accidents and reduce occupational hazards in the workplace, we have established a framework that complies with international guidelines, applicable laws, and regulations, such as the *Guidelines on Occupational Health and Safety Management Systems* by the International Labour Organisation and *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*. We have employed a *Safety Management Policy* and *Public Emergency Management Policy*.

To maintain a safe and comfortable workplace, we have a security system, fire safety system, and food safety monitoring system in place. We invite third parties to conduct security risk audits on our premises every year to identify hardware defects and deficiencies in the operation management system and address other hidden risks.

We attend to the health and well-being of our employees by investing in various resources, including annual medical check-ups, health seminars, fitness and mindfulness sessions, on-site as well as in-person counselling for physical and mental health, and 24-hour telephone support from relevant professionals.

We also organise a wide variety of recreational clubs, such as running, photography, music, dance, language classes, and celebratory activities, including work anniversaries and festival celebrations for our employees. Wherever feasible, we reserve dedicated spaces for recreational facilities on our campuses. For example, in our Shenzhen Headquarters, we have built a 300-meter running track, an indoor rock-climbing wall, table tennis tables, pool tables, a badminton court and a basketball court.

There are various kinds of insurance available for employees, including social insurance, commercial medical insurance, critical illness insurance, accident insurance, life insurance, and many more.

We formulate detailed emergency plans for fire safety, natural disasters, personal injury and other life-threatening events, and conduct regular drills and simulation tests. In response to medical emergencies in the workplace, we have formed an internal emergency rescue team and provided employees with first-aid training. We have approximately 400 automated external defibrillators ("AED") across our 50-plus offices and data centres. In 2021, our internal first-aid team hosted 150 in-person first-aid training sessions for 5,498 participants and provided online first-aid training courses to 13,838 participants.

Over the past year, COVID-19 outbreaks resurged globally, bringing suffering to people and forcing local economies to a halt. We continue to closely monitor the pandemic and inform employees to quarantine or work from home, if needed. Surgical masks, hand disinfectants and personal protective equipment are provided at our offices, and to employees in need. A continuously updated *Tencent COVID-19 Response Guideline* is used to provide guidance on office management and promote anti-pandemic awareness among employees. We apply strict practices to ensure a safe working environment, including enhanced cleaning and sanitation procedures, temperature monitoring, social distancing, and other measures that can minimise transmission risks.

Employment Data Summary

Employment Performance

Indicators		As at 31 December 2021
Total number of employees[1]		68,226
Number of employees by gender	Male	48,406
	Female	19,820
Number of employees by age group	Under 30	28,608
	30 to 50	39,420
	Above 50	198
Number of employees by geographic region	The Mainland of China	66,906
	Hong Kong, Macao and Taiwan	243
	Other countries and regions	1,077
Number of employees by management level	Management	6,119
	Non-management	62,107
Number of employees by employment type	Formal employees	65,109
	Other categories[2]	3,117
Total turnover rate[3]		12.37%
Employee turnover rate by gender	Male	11.90%
	Female	13.53%
Employee turnover rate by age group	Under 30	14.59%
	30 to 50	10.89%
	Above 50	19.39%
Employee turnover rate by geographic region	The Mainland of China	12.32%
	Hong Kong, Macao and Taiwan	15.61%
	Other countries and regions	15.00%

Note:

1. The scope of employees includes the number of formal employees and employees of other categories in the businesses directly operated and managed by the Company.

2. Other categories refer to consultants and interns engaged in the businesses directly operated and managed by the Company.

3. Employee turnover rate = (Number of formal employees who left during the reporting year / Number of formal employees at the end of the reporting year) * 100%. Employee turnover reflects the number of formal employees who have left (due to voluntary resignations, dismissals, retirement).

Health and Safety Performance[1]

Indicators	2021	2020	2019
Number of work-related fatalities[1]	**0**	0	0
Work-related fatality rate (%)[2]	**0**	0	0
Number of injuries	**32**	28	18
Rate of work-related injuries (number of injuries / million of hours worked)[3]	**0.25**	0.27	0.21
Working days lost due to work-related injury (days)	**480**	281	1,058[4]

Note:

1. The data refers to the work-related deaths and injuries from accidents reported by Tencent's Human Resources team and verified by local relevant government authorities. In the Mainland of China, such cases, if any, are reported to the Human Resources Department and verified by the Human Resources and Social Security Bureau.

2. Work-related fatality rate = (Total number of work-related fatalities / Total number of employees) * 100%.

3. The rate of work-related injuries = (Number of recordable work-related injuries / Number of hours worked) * 1,000,000 * 100%.

4. The relatively high number of lost working days in 2019 was mainly due to the significant recovery time that we had provided to the employees with fractures.

Training Performance

Indicators		As at 31 December 2021
Percentage of employees trained by gender	Male	**99.63%**
	Female	**99.59%**
Percentage of employees trained by management level	Management	**99.79%**
	Non-management	**99.60%**
Average training hours of employees by gender	Male	**39.68**
	Female	**44.12**
Average training hours of employees by management level	Management	**55.52**
	Non-management	**39.53**

Note: Training refers to in-person and online courses offered by the Company to employees.

8. OPERATING PRINCIPLES AND PRACTICES

We uphold the value of integrity, proactivity, cooperation, and creativity in our business operation. We comply with all applicable laws and regulations to ensure sustainable development. To achieve business stability, we uphold ourselves to the business ethics and practise risk prevention and control.

8.1 Anti-Corruption

We have developed robust systems and measures to prevent, detect, and deter corruption, bribery, or other fraudulent activities while promoting integrity. High-risk business activities and management are subject to periodic audits to assess the effectiveness of the internal control system and ensure the Group complies with the ethical standards that we strive to uphold.

According to the *Law Against Unfair Competition* in the PRC, business operators shall not use monies, assets, or other means to bribe an entity or individuals to obtain transaction opportunities or competitive advantage. According to the *Criminal Law of the People's Republic of China*, corruption and bribery may constitute a serious criminal offence. We strictly comply with the local anti-corruption and bribery laws and regulations.

Risk Management and Internal Control Policy

In 2016, we updated the *Risk Management and Internal Control Policy* (the "*Risk Management Policy*") and established a system comprising of three risk management lines of defence.

- The first line of defence consists of business and functional departments. We provide targeted training and guidance for relevant employees to help them identify potential risks in their daily work and report such risks to their superiors.

- The second line of defence comprises of the IC. It establishes a list of major risks at the business level by collecting, summarising, analysing various data, and ensuring that appropriate risk response strategies and monitoring measures have been taken. The management first reviews the information. Then, it is submitted to the Audit Committee for further revision before reporting to the Board. The IC performs timely analysis and evaluation on the response to major risks and reports the results to the Audit Committee quarterly. The Board entrusts the Audit Committee to (i) assess the nature and extent of the risks the Company is willing to accept to achieve its corporate objectives, (ii) determine the major risk response strategies and responsible departments, and (iii) promote the implementation of the response strategies from top-down, supported by the IC.

- The third line of defence is made up of the IA and the Anti-Fraud Investigation Department. The IA is highly independent and responsible for providing independent evaluation and assurance regarding the effectiveness of the Company's risk management and internal control system. It supervises the management team and helps them improve their risk management and internal monitoring capability. The Anti-Fraud Investigation Department is responsible for receiving reports from various channels and investigating suspected fraud cases. It also assists the management in advocating integrity values by ensuring all employees understand and fully acknowledge the *Sunshine Code*. Both the Internal Audit and the Anti-Fraud Investigation Departments report directly to the Audit Committee.

Through the three lines of defence, we regularly provide targeted risk control training for employees from different positions and businesses to enhance their overall awareness of risk management.

The *Risk Management Policy* sets out the roles and responsibilities of different stakeholders in risk management and control (including those in relation to fraud). Such Policy emphasises that each business group is primarily responsible for its department's risk management and internal control. If any fraudulent activity is detected, the management of the relevant department shall improve their control procedures promptly to prevent the recurrence of similar incidents. In 2021, our Anti-Fraud Investigation Department found more than 50 cases in violation of Tencent's "high voltage line". Approximately 70 people have been dismissed, amongst which more than 10 people suspected of crimes have been reported to relevant government authorities in accordance with applicable laws and regulations.

Sunshine Code and Anti-Corruption Training

All employees of the Group are required to strictly follow and comply with the *Sunshine Code*. It prohibits all kinds of fraudulent activities, bribery, embezzlement, misappropriation of the Company's assets, extortion, falsification of information and any other activities that are not in compliance with the applicable laws and regulations. The *Sunshine Code* is reviewed annually and updated against the ever-changing needs of the Group as appropriate. That way, it could cater to our business development, reflect the applicable laws and regulations, and capture all kinds of fraudulent activities. Our *Sunshine Code* was further enhanced in 2021 to (i) strengthen the enforcement and punishment of Code violations, and (ii) revise the conflict-of-interest parameters.

In order to educate our employees about anti-corruption behaviours, we have provided them with mandatory training on our *Sunshine Code*. We promote anti-corruption through emails, elevator pitch videos, and other internal communication channels. In 2021, we updated the *Sunshine Code* related online video courses and required the participation of all employees of the Group. For new hires and employees in sensitive positions, we have provided them with a total of 76 face-to-face anti-fraud training courses, covering more than 10,000 participants. In 2021, 100% of our employees have received anti-corruption training.

In 2021, five directors participated in either the Audit Committee meeting, internal audit committee meeting, other internal meetings, or study the Sunshine Code related online video courses to learn about the *Risk Management Policy*, anti-fraud policies and measures, anti-corruption related laws and regulations, the *Sunshine Code*, as well as internal corruption cases.

Anti-Fraud and Whistleblowing Policy

We have published an *Anti-Fraud and Whistleblowing Policy* (the "*Whistleblowing Policy*"), which conveys the message of our zero-tolerance in relation to fraudulent activities for all the employees and suppliers/business partners. The Group encourages employees and suppliers/business partners to report any concerns that they may have regarding any non-compliant or potentially fraudulent activities. The *Whistleblowing Policy* outlines multiple whistleblowing channels and our whistle-blower protection system. We protect the safety of whistle-blowers by ensuring that they do not receive unfair treatment or any form of retaliation during the process. Since 2016, we have used our Weixin Official Account, "Sunshine Tencent" to raise employee's awareness of anti-fraud policies and whistleblowing channels and provide our suppliers/business partners a means to file a formal report directly.

Employees, suppliers/business partners and other stakeholders can also report other violations (including but not limited to employees' misconduct, deception, disclosure of trade secrets, or other breaches of business ethics) through our open channels. We encourage the informants to leave their contact information so that we can conduct follow-up investigations and provide them with updates on the progress. We guarantee that anonymous reports that provide adequate information will be dealt with seriously. We guarantee the confidentiality of the submitted information and the informant's identity and take measures to protect the informant from retaliation.

Fraud Detection and Corruption Prevention

When suspected fraudulent activities are discovered or when a report of suspected fraudulent activities is received, the Anti-Fraud Investigation Department (consisting of professionals who used to be a part of the anti-corruption function at a governmental authority or private enterprise and have profound knowledge in fraud risk management and investigation) is assigned to handle the investigation independently. After the investigation has been completed, the employee found and proven to have committed fraud shall be subject to immediate dismissal. The department in question must, with the assistance of the IC, take corrective actions in response to the business risk or loophole identified during the investigation. If we find that any suppliers or business partners have engaged in serious corruption or fraudulent activities, we will terminate the contracts immediately and will never conduct business with them. In the event that any fraudulent activity violates any relevant laws or regulations, such cases shall be reported to appropriate government authorities. In 2021, we received the results of the four corruption-related cases (including cases we transferred in previous years) that we have transferred to the authorities. Six employees who were involved were dismissed and have faced criminal punishment. Because these cases were discovered and handled in time, they did not incur much impact on the Company's business. After the occurrence of these cases, according to the *Sunshine Code,* the direct and indirect managers of the employees involved bore the management responsibilities and consequences, such as reprimand, decrease in performance appraisal rating, demotion, dismissal and termination of labour contract. Relevant departments have also taken effective internal control measures to prevent similar cases from recurring.

With the *Management Policy for Sensitive Positions* (the "*Management Policy*") in place, we strengthened the construction of the Company's integrity system by improving our corporate governance standards and supervision requirements on risk management and internal control. The *Management Policy* also defines which positions are regarded as sensitive, including those that are involved in procurement (supplies, services, and resources), marketing, channel sales and resource management, external events, evaluation and selection of potential partners, pricing, resource allocation, key decision-making and other high-risk duties. Corresponding management measures are taken for these positions, including requiring regular job rotation, stripping sensitive responsibilities, participating in various risk management training. The *Management Policy* also stipulates that the IA reserves the right to audit all sensitive personnel positions and may conduct audits on current or former personnel in sensitive positions at any time.

Our stance against fraud is clear. In order to convey a message regarding our determination to fight against fraud and introduce our *Whistleblowing Policy* externally, we sent a letter to our suppliers and business partners and requested them to complete a questionnaire annually since 2015. The questionnaire delineates our corporate values, the *Whistleblowing Policy* and various reporting channels. By doing so, we learn from our suppliers and business partners whether our employees have requested any gifts, cash, or other benefits and whether they have been mistreated during the course of business. Upon receiving the feedback, we ensure that the questions or concerns raised by our suppliers and our business partners are addressed promptly. The Anti-Fraud Investigation Department will commence a formal investigation when necessary.

Our IC has established a procurement management control unit to optimise the Group's Supplier Management System. Through the centralised system, the bidding process can be more standardised and transparent. The Supplier Management System also provides communication channels for suppliers to collect their feedback or complaints. Fraud complaints will be directly transferred to the Anti-Fraud Investigation Department for follow-up. The goal is to ensure that suppliers' complaints and concerns can be resolved in a timely manner, thereby minimising the risk of fraud.

8.2 Anti-Trust

We are committed to competing in a fair way and respecting the relevant anti-trust laws and regulations of the jurisdictions where we operate our business. In China, we are committed to complying with the *Anti-monopoly Law of the People's Republic of China*, which took effect on 1 August 2008, the *Anti-monopoly Guidelines* of *the Anti-monopoly Commission of the State Council on Platform Economy* promulgated on 7 February 2021, and other antitrust-related laws, regulations and guidelines.

We advocate fair competition and have issued the *Corporation Fair Competition Guidelines* since 2016. It contains a comprehensive introduction to the *Anti-monopoly Law of the People's Republic of China*, the implementing regulations, and the enforcement practices. It also sets out compliance requirements corresponding to our business practices. It serves as the basic guide to assist relevant employees in following the rules of fair competition and conducting business activities in conformity with these laws and regulations. In 2016, we established a Competition Policy Office, a specialised department with professional lawyers in charge of anti-trust compliance matters. To the best of our knowledge, we are among the first in the industry to establish such a specialised department.

In 2021, we further enhanced our anti-trust compliance system, which focuses on the following three main areas:

- **Establish a new specialised compliance department and strengthen daily compliance initiatives**

  In terms of organisational structure, in 2021, we set up a specialised Anti-Monopoly Compliance Department ("AMCD") that reports regularly to the senior management. The AMCD coordinates with relevant teams and resources to strengthen our anti-trust compliance. The AMCD's work scope includes (i) providing anti-monopoly compliance advice on daily operation, (ii) conducting merger filings, (iii) following up with the domestic and global anti-monopoly legislation, rule-making progress, enforcement and judicial initiatives and analysing impacts on the operation, (iv) training on anti-trust compliance, and (v) actively cooperating with anti-trust regulators' requirements, if any. Our AMCD works closely with different business groups and other stakeholders to continuously improve the formulation and implementation of the relevant compliance policies and mechanisms (including but not limited to the daily compliance initiatives and merger filings). We aim to strengthen our anti-trust compliance and help maintain a fair and competitive environment.

- **Update anti-trust compliance guidelines for business**

  In the spirit of enhancing internal anti-trust scrutiny, we have upgraded and optimised our anti-monopoly compliance system. In accordance with the latest anti-trust legislation, law enforcement and judicial practices, we made revisions to the 2016 *Corporation Fair Competition Guidelines* and upgraded it to the *Group's Anti-trust Compliance Guidelines* in 2021. For instance, the updated Guidelines provide more specific compliance guidance for different business scenarios by referring to typical cases published by the authorities.

- **Strengthen anti-trust compliance training and advocacy**

  We continue to strengthen the relevant compliance training across the Group. The training scheme aims to continually enhance employees' awareness around anti-trust law compliance. We have also invited professionals to host anti-trust related seminars to further advocate anti-trust compliance.

In the future, Tencent will continue to actively engage with the regulatory authorities and comply with relevant anti-trust laws and regulations.

8.3 Anti-Money Laundering

The Group strictly abides by applicable laws and regulations related to anti-money laundering ("AML") and counter-terrorist financing ("CTF") in the PRC and other countries and regions in which we provide payment processing services. We monitor regulatory changes and respond in a timely manner by engaging in legal interpretation, gap analysis and training, as well as with the assistance of external consultants. We fulfil all relevant regulatory obligations under such applicable rules and regulations including but not limited to the *Anti-Money Laundering Law of the People's Republic of China* and *Administrative Measures for Anti-Money Laundering* and *Anti-Terrorism Financing of Payment Institutions*.

In view of the complex legal and regulatory compliance landscape across multiple jurisdictions, we continue to improve our money laundering risk management.

- In 2021, we updated our policy and released the second version of *Tencent's Minimum Standards for Anti-Money Laundering and Sanctions Compliance*. The revised standard closely follows domestic and global regulatory requirements and trends. It also re-examines the AML control measures based on the development of the Group's business and products.

- The Group's Anti-Money Laundering and Sanctions Compliance Department is responsible for (i) coordinating the management of money laundering and sanctions risk at the Group level for all businesses, (ii) fulfilling AML and sanctions requirements under relevant laws and regulations, and (iii) managing and promoting the implementation of various AML and sanctions initiatives.

We have also published the *Tencent Anti-Money Laundering Policy Statement* and the *Tencent Sanctions Policy Statement* on the Corporate Governance page of the Company Website.

In 2021, we sought strict compliance with all applicable AML and sanctions requirements and promoted initiatives under the framework of the *Tencent's Minimum Standards for Anti-Money Laundering and Sanctions Compliance*. We will continue to (i) increase staffing and better equip the team via on-the-job and professional training periodically; (ii) improve and update our internal system and processes to comprehensively address all applicable regulatory requirements; (iii) periodically carry out assessments on our systems and processes to enhance the implementation of AML and sanctions compliance, including customer and product risk assessment, transaction monitoring and suspicious transaction report compliance assessment, and list management systems inspection; (iv) deepen cooperation with authorities to fight against money laundering and terrorist financing; and (v) actively participate in international AML and CTF events to exchange industry best practices.

8.4 Supply Chain Management

Having a sustainable supply chain is one of the fundamental factors for ensuring long-term business growth. We have formulated the *Tencent Supplier Management Policy* together with the Supplier Management System to provide effective and standardised management of our suppliers.

The Supplier Management Policy stipulates the requirements and practices for supplier legal and regulatory compliance, supplier selection and evaluation. The Policy is also set to manage the ethical risks associated with the relationships between our procurement employees and business partners. The Policy and the *Sunshine Cod*e specify standardised processes for procurement employees when engaging in procurement activities. Suppliers are required to declare any relationship they may have with our employees in written form. Suppliers must agree to the terms of the *Anti-Commercial Bribery Declaration*, which requires suppliers to conduct business with the Company in an ethical manner. As of 31 December 2021, all suppliers have been required to comply with the *Tencent Supplier Management Policy*, and all suppliers in the Mainland of China have been required to sign the *Anti-Commercial Bribery Declaration*.

The online Supplier Management System is used for managing qualified suppliers and the procurement lifecycle. It covers the aspects of finding and selecting suppliers, evaluating supplier performance, and terminating the engagement of suppliers. All details are recorded within the system.

- Supplier selection: We have an internal policy that sets out the procedures and mechanisms for supplier onboarding. The Procurement Department looks for qualified suppliers in the market and evaluates offers based on the duration of the cooperation, order volume, and nature of the request. In principle, we will ask for price quotations from at least three vendors whilst considering factors such as the delivery time, operational and technical capabilities, and environmental and social responsibilities. If there is only one vendor available for selection as it dominates the relevant market or it is the only vendor with access to the required goods or services, the particular procurement arrangement will require special approval along with a sufficient and reasonable justification. Before engaging with a supplier, we will conduct due diligence, including qualification checks and site visits on the supplier. The findings and evaluation will be reported to the Procurement Department for final decision.

- Supplier evaluation: We regularly evaluate the performance of our suppliers and take appropriate steps to address any issues concerning the quality of the suppliers. For underperforming suppliers, subject to applicable contractual arrangements, we may (i) discuss with them about their remedial plans, (ii) suspend the cooperation, (iii) reduce the order volume, (iv) impose penalties, or (v) suspend payment. The Procurement Department may disqualify a supplier for the following events when (i) we suffer from material economic losses due to the delayed delivery, quality issue, or breach of contract by the supplier; (ii) the supplier has received the lowest rating on the rating scale for two consecutive quarters, and (iii) the supplier is in serious breach of business ethics.

Suppliers, which the Group Procurement Department formally engages with, are also required to sign a *Corporate Social Responsibility Commitment*. It is a declaration that covers labour rights, child labour-free and forced labour-free practices, health and safety, and environmental protection. We prioritise environmentally friendly products and services when selecting suppliers related to office buildings. We have required all property management companies of our self-owned office buildings to obtain the ISO 14001 environmental management system certification, which has been checked by the Administrative Department every year.

Number of Suppliers

Number of suppliers by geographical region	**As at 31 December 2021**
The Mainland of China	**32,439**
Hong Kong, Macao and Taiwan	**1,711**
Other countries and regions	**4,865**

Note: The "number of suppliers" refers to the number of active suppliers in the supplier database during the reporting period, and the "geographical region" refers to the place where the suppliers were registered.

9. PRODUCT RESPONSIBILITY

We strive to provide the best user experience with high-quality and reliable products and services. We focus our efforts on protecting data security and user privacy, product health and safety, customer complaints, advertising content and IP rights. We also conduct strict reviews of our products and services offered and related sales, marketing and advertising strategies and materials to ensure compliance with applicable laws and regulations.

9.1 User Privacy

At Tencent, user privacy and data security are our highest priorities. We believe that protecting the data privacy of our users is essential to creating a safe and market-leading user experience, and that users should be in control of their data and be well-informed of our data policies and practices. Our belief has followed through to our adoption of "Privacy by Design" and "Privacy by Default" when developing our products and services.

Management Approach

Security, autonomy, compliance, and transparency laid the foundation of our privacy protection policy. Tencent is privacy-focused on every level. Our dedicated privacy and legal teams work hand-in-hand with our product teams to ensure that our products and services are built with privacy in mind from the ground up, and comply with all applicable laws and regulations. Our product teams also work together with our engineering teams to ensure that our data collection and use practices for products and services are transparent, and that users have control over how their data is used.

We adhere to the following principles for user privacy protection and data security:

- Security and reliability. We work to prevent user data leakage, damage and loss through reasonable and effective data security technology and management.
- Independent choice. We provide convenient data management options for users to make appropriate choices and manage personal data.
- Protect communication secrets. We strictly abide by laws and regulations, protect users' communication secrets and provide secure communication services.
- Reasonability and necessity. We only collect necessary data to provide better services to users.
- Clarity and transparency. We strive to introduce the privacy policy on data processing to users in easy-to-understand language.
- Integrate privacy protection into product design.

Tencent complies with all applicable privacy protection and data security laws and regulations in the jurisdictions we operate. To ensure the Company's products and business processes comply with the regulatory requirements, we monitor the relevant regulations and laws in China and international markets closely, implement such new requirements and upgrade our know-how in a timely manner.

Tencent acts in accordance with applicable laws and follows the following general principles whenever we receive requests to disclose data from government agencies and regulators:

- We respond to valid legal requests consistently and fairly across all jurisdictions where we offer our products and services, subject to applicable laws and regulations and our interpretation of potential differences between jurisdictions;
- Whenever possible and subject to applicable laws, we are transparent with our users in the actions that we take in response to valid legal requests, to provide affected users with an opportunity to respond to the request; and
- We carefully review all requests to ensure that we comply with all applicable laws and regulations in our response, while respecting our users' rights. That may include taking sufficient internal and third-party professional advice.

Oversight

The Board and Management have always attached great importance to the protection of our users' personal data. Tencent's Management is committed to a privacy-first governance approach and has institutionalised a robust internal evaluation process to ensure that all products are fully assessed to comply with all applicable data privacy laws and that all data collected are securely transmitted and stored. From top-down, to bottom-up, data privacy is an organisational effort.

Approach and Procedures

We believe that users should be able to manage their own data. Therefore, our products and services are designed to the maximal extent that restricts the collection of and access to user data by Tencent or anyone else. While using our products and services, users can manage the scope and extent to which their data is collected, used, and shared. These features have been researched, designed, and implemented over many years in order to protect users' privacy and allow them to directly manage their data.

Our approach to data protection follows the widely recognised "Privacy by Design" concept, which dictates that all our products and services are designed with privacy protection from the outset and that we continuously think about privacy protection throughout the product lifecycle. Our approach to "Privacy by Design" is encapsulated in three words: "Person-Button-Data".

- "Person" refers to how the needs of our users are central to everything we do. Core to this is the notion of transparency and our commitment to letting users know how their data is used. Privacy remains our highest priority in all that we do. Users can manage their personal data, and we facilitate this in line with applicable laws and regulations. We only collect the minimum amount of data required to power our products and services. We do not provide users' data to third parties without a clear legal basis, and users are informed as to what data is shared, how it is shared, and with whom it is shared.
- "Button" symbolises a reminder of our commitment to providing users with the ability to manage their data in an easy, seamless fashion - like the click of a button. Our products and services generally include a privacy control suite or centre where users are empowered to access their data, obtain a copy of their data, request for deletion of their data, or for its migration, in accordance with applicable laws.
- "Data" refers to user data we safeguard with our thorough and cutting-edge cybersecurity technology and management protocols. Our round-the-clock Security Platform Department comprises some of the world's leading data security experts who collaborate with external security researchers and partners worldwide through our online Tencent Security Response Centre Platform to create a more robust and secure digital environment. Together, these provide world-class threat monitoring, defence, and response mechanisms to safeguard user data and enable prompt detection and remedy of security incidents.

Our Data Protection Officer undertakes the related responsibilities according to laws, including communicating with regulators and providing advice to management on related compliance requirements in different jurisdictions. The Data Protection Officer is supported by a team of qualified privacy protection professionals and is available to address any questions regarding Tencent's privacy practices, or any product-specific privacy policy, at Dataprotection@tencent.com.

Privacy Impact Assessments and follow-up

As part of our privacy-focused work, we regularly undertake Privacy Impact Assessments ("PIAs") for our products and services. These PIAs evaluate the privacy-related risks of our products and services in the relevant jurisdictions where we operate. Our dedicated privacy legal team is trained to identify, highlight, and manage privacy risks, minimise potential impacts to individual rights, and address other adverse privacy issues.

Our privacy protection policy is also published on the product's official website and app, which is also accessible on the Tencent Privacy Protection Platform. Users can also submit complaints or make inquiries through the feedback button on the website, app and privacy feedback email (Dataprivacy@tencent.com).

Incident Management

Tencent has comprehensive systems in place to empower our teams to respond rapidly and effectively to all types of information security incidents, including attacks from attrition, ransomware, the web, email, impersonation, improper usage, system outages and deletion, loss, or theft of data. Our main goals are to continuously ensure the cybersecurity of our platforms, to protect the information entrusted to us by users, and to ensure our operations meet the applicable laws and regulations. We also use various incident analysis mechanisms and risk protocols to ensure that Tencent responds appropriately and swiftly to any threat detected.

Culture and Responsibility

We are committed to a privacy-conscious culture and making the protection of user privacy our top priority. We believe that ensuring privacy is a shared responsibility for all Tencent employees, regardless of their roles or ranks at Tencent. We regularly provide comprehensive and company-wide privacy education and awareness training programmes to all our employees. These programmes are designed to provide employees with an understanding of general privacy and data protection considerations, including "Privacy Protection in Design" and "Privacy Protection by Default," how to build privacy-centric user interfaces, how to identify privacy issues in mergers and acquisitions, how to respect the rights of data subjects and handle related requests, and the risks of cross-border data transfers. We systematically communicate our privacy protection and cybersecurity guidelines and procedures to all employees and strictly enforce safeguards across our products and services at all levels.

9.2 Data Security[4]

In September 2021, we established the Security Technology Committee to enhance the internal coordination of security technologies development and application. We have also strengthened the comprehensive systems by applying various incident analysis mechanisms and risk protocols, enabling us to respond to various information security threats and incidents appropriately and swiftly.

We keep the personal information of users collected and used during the provision of our services strictly confidential and shall not leak, distort, damage, sell or illegally provide such information to others. We establish and improve the user information protection system by hierarchically managing the access rights of internal staff to ensure data security and prevent any leakage, damage, or loss of information. We provide an easy-to-use channel for employees to look up the Company's data security policy through internal communication tools to timely confirm whether their behaviour meets the Company's security policy requirements. When employees discover potential data security violations, they can report the cases through the internal communication tools or reporting system; once the violations are verified, the Company will take strict disciplinary measures, including but not limited to notice of criticism and corresponding punishment. We provide privacy protection and data security training to all employees, including full-time, part-time and interns, to instill a long-term data security protection culture.

FinTech

We provide a variety of security solutions for enhancing users' account security. We continue to conduct self-assessment, optimisation and standardisation of our financial products in accordance with applicable laws and regulations, including the *Measures for the Supervision and Administration of Publicly-offered Securities Investment Fund Distributors*, the *Circular on Standardising the Retrospective Administration of Online Insurance Sales Practices*, and the *Measures for the Regulation of Internet Insurance Business*. Our risk control system provides real-time monitoring 24/7 to ensure the safety of account funds. Users will be informed of any changes in the amount of funds immediately via mobile phone messages, email, and other means.

4 "Percentage of the total number of products sold or shipped subject to recalls for health and safety reasons" and "recall procedures" are not closely relevant to the Company's main businesses.

Tencent Cloud

Tencent Cloud has established an efficient internal control system and strengthened its foundation in data security from the aspects of system process and control activities. Our Cloud Security Management System has also received accreditations globally.

We apply our internal best practices in data security to Tencent Cloud's security products and services, including the intelligent gateway, cloud firewall, DDoS (distributed denial-of-service) protection, network intrusion protection, and anti-fraud. It has achieved all-rounded security by identifying and deploying protection measures on physical security, virtualisation security, network security, host security, data security, application security, business security, security audit and security management. With the evolution of cloud computing and security technologies, Tencent Cloud will continue to build an efficient security internal control system, enhance security compliance capabilities, and upgrade cloud security and big data security standards.

9.3 User Protection

Protection of Minors

Tencent has always attached great importance to protecting and promoting the healthy development of Minors, which can be demonstrated through our products and services. We utilise technological innovations to upgrade the protection system for Minors and create a series of programmes to support their growth and development. With the *Law of the People's Republic of China on the Protection of Minors* that came into effect in June 2021, which stipulates the responsibilities and obligations of internet service providers, we have rolled out Minors protection programmes in our various products and fully implemented such measures as required.

As one of the leading companies in the game industry, Tencent is committed to creating a healthy game-playing environment for many years. In China, we work with the industry to explore various measures for building a healthy game-playing environment for Minors. We have implemented the real-name system and anti-addiction system in accordance with the regulatory requirements of the PRC. We have also leveraged various advanced technologies within the industry to further enhance our protection system for Minors. In recent years, we have introduced the following measures:

- Pioneered a system for parents to manage their children's playtime in February 2017;
- Introduced the strictest measures in the industry, with mandatory real-name verification and limits on game time and spending in September 2018;
- Prevented in-game spending by players aged under 12 since August 2021;
- Minors can only play games between 8-9 pm on Fridays, Saturdays, Sundays, and statutory holidays since 1 September 2021. Industry-leading measures were taken to prevent Minors from using adult accounts. For example, we (i) upgraded our screening system to identify misused adult accounts; and (ii) proactively cracked down on illegal transactions of adult accounts; and
- In the fourth quarter of 2021, total time spent by Minors reduced by 88% year-on-year and contributed 0.9% of the total time spent on our Domestic Games. Total grossing receipts from Minors reduced by 73% year-on-year and contributed 1.5% of the total grossing receipts of our Domestic Games.

Besides the measures on healthy gameplay, we also pay close attention to the usage habits of the Minors in our entertainment and social products. We launched "underage mode" in a number of products, including but not limited to Tencent Video, Weishi, and Weixin, or developed alternative versions of these products suitable for Minors. When the "underage mode" is activated by the guardian or the minor in Tencent Video and Weishi, viewers will have their screen time set on a limit and reminded to take breaks. In addition, we updated Weixin in 2021 with a variety of functions to protect Minors, including (i) parental control over their children's access to videos, subscriptions and Mini Programmes; (ii) curated content for teenagers in Weixin Video Accounts; (iii) closed live broadcast portal to Minors, where they are not allowed to initiate a live broadcast or use the tipping function within; and (iv) disabled access to Q coins top-up, credit card repayment and other services that are not suitable for Minors.

Responsible Content and Internet Community

According to the relevant national laws and regulations, and agreements such *as Wexin Software License and Service Agreement*, *Wexin Official Accounts Platform Service Agreement* and *QQ Software License and Service Agreement*, if users spread unlawful information through Wexin personal account, Wexin Official Accounts, QQ and Qzone, once found and proven, the platform will remove the unlawful content and take actions upon the relevant accounts (such as warning, blocking and limiting some functions of the account). We continue to optimise the audit standards and inspection mechanism of Mini Programmes and Mini Games access. We conduct reviews and tests in accordance with legal and regulatory requirements on the developers and their submitted application contents for gaining access to the Mini Programmes and Mini Games platform. Developers who offer services that involve special industries, such as medical, finance and games, shall provide corresponding qualifications and approval documents. If the developers fail to provide the relevant certificates, their request to publish their Mini Programmes and Mini Games onto the platform will be consequently denied. We manage the platform in accordance with the above-mentioned relevant agreements and platform rules, and take timely actions upon receiving users' complaints and reports, as well as taking corresponding measures for developers who fail to operate legally. We attach great importance to educating our users on various risk prevention topics, such as internet pornography and fraud through the "Weixin Safety Centre", "QQ Security Centre" official accounts and other official channels. Weixin and QQ each provides a mechanism for users to report any false or improper content published on their platforms. We continue to improve the efficiency of handling users' complaints regarding infringement and promote access to the reporting channels. We also provide guidance to users on filing complaints and reports on any violations of laws and regulations, or violations of their legitimate rights and interests through prescribed channels on our platforms. In 2021, Tencent released 3,189 articles on dispelling misinformation, which has been viewed more than 310 million times.

In order to help the silver generation and other vulnerable groups gain better access to the mobile internet, for instance, Wexin and a number of products launched the "Easy Mode" in 2021, which offers big text fonts, large icons and high contrast colours to enhance their product experience.

Responsible Advertising

According to the *Advertising Law of the People's Republic of China* and the *Interim Measures for Administration of Internet Advertising*, advertising operators and advertising publishers shall verify all relevant business documents pursuant to laws and administrative regulations and verify the advertising contents. We review the advertising contents strictly in accordance with the above laws and regulations and require clients who intend to use the Tencent Marketing Solution platform to publish advertisements to ensure the legality of the advertising content. They must also show that they have valid qualifications to publish relevant advertisements and that the advertising contents are proven to be genuine. After the review is approved, we conduct checks on the advertising content to ensure its compliance through our automatic inspection system which is equipped with multiple capabilities along with our professional inspectors. Once violations of laws and regulations or relevant rules of Tencent Marketing Solution are found, we will take measures, such as refusing the release of illegal advertising materials, removing illegal advertisements from the platforms, requiring the violator to bear liability for breach of contract. Meanwhile, we strive to better protect the rights and interests of users and comply with the requirements of current laws and regulations; for that, we continue to establish and improve the compliance assessment regarding the advertising business, promote training and advocacy for employees and partners, enhance system capabilities so as to continuously strengthen our compliance with the relevant laws for the advertising business. In 2021, the Group strictly complied with the applicable laws and regulations.

9.4 Customer Service

Internet services

We have established an accessible and effective mechanism for our internet service for receiving and handling feedback/complaints via our open reporting channels. Product Departments of the Company learn about users' opinions through online surveys, questionnaires, social media platforms, phone calls with users and regular product researches. We incorporate their suggestions accordingly during product design and product optimisation.

Our Customer Service Department is responsible for handling and answering customers' complaints and inquiries about our business. In 2021, Tencent customer service assisted approximately 470 million users and provided services approximately 2.28 billion times. Regarding users' complaints received during our provision of services, a dedicated team under Customer Service is responsible for conducting a comprehensive investigation of the incident and providing solutions to the user. In 2021, a total of 2,009,210 user complaints were received, 99% of the complaints were handled within three working days. In terms of the business types, there were 1,238,395 complaints related to games, accounting for 61.6%, 171,955 complaints related to payment, accounting for 8.6%, 289,661 complaints related to social networks, accounting for 14.4%, and 309,199 complaints related to other businesses, accounting for 15.4%.

Cloud Services

Tencent provides global leading cloud computing, big data, AI and other technological products and services to government agencies, corporations and individual developers. The Cloud Technology Operation Service Department is supported by a professional team responsible for customer's pre-sales, after-sales, technical delivery consultation and complaint handling.

With the expansion of Tencent Cloud business, the scale of services undertaken by Tencent Cloud has also increased year by year, with 4.76 million number of services in 2021. In response to the users' complaints received during our provision of service, Tencent Cloud has set up a dedicated handling team and a comprehensive process to provide satisfactory solutions to better protect the rights of its users. In 2021, 320 complaints were received from users and 85% of the complaints were handled within seven days.

9.5 Intellectual Property

Tencent protects the intellectual property rights of third-party platforms and its own platforms via our team of dedicated intellectual property enforcement attorneys who are committed to fighting infringement.

Our dedicated IP team is mainly responsible for the day-to-day management of legal matters involving trademark, patent, copyright, domain names and other IP rights. We began a comprehensive programme for the management of IP since the early stages of our establishment, and have regularly applied for the registration of IP rights. With the development of our business, we have expanded our global IP portfolio to cover more than 100 countries and regions. As of 31 December 2021, we have obtained over 36,000 officially registered trademarks and over 24,000 issued patents. Coupled with our creation of a vast amount of copyrighted content, we have accumulated IP assets of considerable value. Our IP team has developed a comprehensive database for our patents, trademarks and copyrights, and our strong data analytical skills enable us to manage and monitor our IP rights in a meticulous and efficient manner. To combat infringement of IP rights, our IP team has also established a comprehensive and efficient monitoring and maintenance system and has devised various enforcement policies and measures to protect our IP rights. Please see further details on the Company's website (https://www.tencent.com/legal/html/en-us/property.html).

Major laws and regulations we follow include:

- *Trademark Law of the People's Republic of China* amended on 23 April 2019;
- *Patent Law of the People's Republic of China* amended on 17 October 2020;
- *Copyright Law of the People's Republic of China* amended on 11 November 2020; and
- The *Administrative Measures for Internet Domain Names* issued on 24 August 2017 and implemented on 1 November 2017, which specifies rules on the ownership, protection period, registration method and legal responsibility of trademark, patent, copyright and domain names.

10. COMMUNITY

Tencent is always thinking about how we can assist social development through the synergistic efforts of our people, platforms and technologies.

10.1 Community Investment

In April 2021, the Company established its SSV division, which is a new core engine that drives sustainable innovation for social value. With the initial funding of RMB50 billion, SSV division will promote social value innovation in areas, including (i) research in basic sciences, (ii) education innovation, (iii) rural revitalisation, (iv) carbon neutrality, (v) primary healthcare, (vi) philanthropic platform, (vii) assisting with public emergencies, (viii) technologies enabling the silver generation, (ix) enhanced accessibility for communities with activity limitation, and (x) digitalisation of culture. In August, we further dedicated another RMB50 billion to fund the "Common Prosperity" initiatives in China. This will be mainly used to support low-income communities, improve health care coverage, help rural economic development, and promote grassroots education. As of the end of 2021, SSV division had spent a total of RMB695 million on the above initiatives.

To ensure our community investments carry a long-term impact, we engage with experts on various social or environmental topics to better understand the needs of different communities. We have explored and developed various tools and systems that are related to social investment, so as to guide and manage our investment and evaluate impacts in the following ways: (i) identify opportunity and problem to solve within key issue areas; (ii) design solutions and partner with right stakeholders; (iii) monitor and evaluate performance to ensure outcome and impact; and (iv) advocate and scale evidence-based solutions to enable system change.

In addition, Tencent has also developed technologies and solutions for social well-being, including but not limited to developing mobile applications suitable and helpful for the silver generation, creating affordable and effective hearing-aid devices for the hearing impaired, designing programmes to inspire creativity and teach coding skills.

10.2 Charity Donation

Initiated and operated by the Tencent Charity Foundation, Tencent Fundraising Platform is a public donation and information platform open to qualified public charities for free. The platform uses internet technology and social media to connect public charity organisations with internet users, enterprises and the media to build an interactive, dynamic and transparent philanthropic online network. In 2021, Tencent Fundraising Platform supported over 26,000 public welfare projects in the Mainland of China and raised a total of RMB5.45 billion.

The Group has donated in 2021 a total of RMB1.513 billion, in cash and materials, to Tencent Charity Foundation (the Mainland of China) and RMB7.888 billion since 2007.

10.3 Volunteering

Over the last decade, the Tencent Volunteer's Association has been involved and contributed to the areas of online charity, promotion of unhindered Internet access, information technology popularisation, cybersecurity, emergency support, poverty relief, environmental protection, care for the elderly and children with special needs, as well as animal protection.

As of 31 December 2021, the Tencent Volunteers' Association has participated in approximately 200,000 hours of voluntary services from approximately 18,000 volunteers.

Since April 2012, volunteers were granted one day of fully-paid leave per year. From 1 January 2022, a new matching donation programme will come into effect. For every donation our employee makes, the Company will match a donation to the same amount. For every qualified hour of voluntary work our employee serves, the Company will donate RMB100 correspondingly.

ESG APPENDIX 1. COMPILATION ILLUSTRATION

This ESG report is prepared in accordance with the ESG Reporting Guide. This report also references selected disclosures from the GRI standards and the SASB standards. It also applies the disclosure recommendations developed by the TCFD for climate-related disclosure in accordance with the Stock Exchange's requirements. For more details about our ESG performance, please refer to the standalone ESG report to be disclosed on the Company's website: www.tencent.com/esg.

PricewaterhouseCoopers has been commissioned by the Company to conduct a limited assurance on the selected ESG KPIs in accordance with the *International Standard on Assurance Engagements - Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE) 3000 (Revised)*. For more details regarding the assurance process and the complete assurance report, please refer to the standalone ESG report to be disclosed on the Company Website.

During the process of identifying the scope of the reporting boundary, we ensure that the report reflects our ESG impact and performance. Unless otherwise specified, the report covers the ESG performance of the business activities directly operated and managed by the Company during the reporting period from 1 January 2021 to 31 December 2021.

The report is aligned with the principles of "materiality", "quantitative", "balance" and "consistency" as follows.

Materiality: We have conducted a detailed materiality assessment to identify and evaluate key ESG issues that are most important to our business as well as our internal and external stakeholders. The information gathered from the materiality assessment was then used to determine the disclosure content of this report. For details of the materiality assessment, please refer to the chapter titled "Materiality".

Quantitative: We disclose measurable environmental and social KPIs and set quantitative performance targets where applicable. The measurement standards, methodologies, assumptions and/or calculation tools of the KPIs in this report, as well as the source of the conversion factors used, have been explained in the corresponding context (where applicable).

Balance: This report aims to provide a balanced representation of the Group's ESG efforts around the environment, our people, operating principles and practices product responsibility and community.

Consistency: This year's ESG report has been prepared with the same method used in previous years. Changes that may affect a meaningful comparison with previous reports have been explained in the corresponding section.

The ESG report is to be read together with this annual report, in particular the Corporate Governance Report within this annual report, the ESG standalone report, as well as the section headed "ESG" on our Company's website.

Should you have any questions, please contact us at ESG@tencent.com.

ESG APPENDIX 2. ESG INDICATOR INDEX

Disclosure Requirements		Sections in this Report
Governance Structure		ESG GOVERNANCE STRUCTURE BOARD STATEMENT
Reporting Principles		MATERIALITY COMPILATION ILLUSTRATION
Reporting Boundary		COMPILATION ILLUSTRATION
Aspect A1: Emissions	General Disclosure	ENVIRONMENT
	A1.1	ENVIRONMENT • Environmental Performance Summary
	A1.2	ENVIRONMENT • Tackling Climate Change • Environmental Performance Summary
	A1.3	ENVIRONMENT • Environmental Performance Summary
	A1.4	ENVIRONMENT • Environmental Performance Summary
	A1.5	ENVIRONMENT • Tackling Climate Change • Environmental Targets
	A1.6	ENVIRONMENT • Waste Management • Environmental Targets

Disclosure Requirements		Sections in this Report
Aspect A2: Use of Resources	General Disclosure	ENVIRONMENT • Energy Management
	A2.1	ENVIRONMENT • Environmental Performance Summary
	A2.2	ENVIRONMENT • Environmental Performance Summary
	A2.3	ENVIRONMENT • Energy Management • Environmental Targets
	A2.4	ENVIRONMENT • Water and Other Emission Management • Environmental Targets
	A2.5	Not closely relevant to the Company's main businesses
Aspect A3: The Environment and Natural Resources	General Disclosure	ENVIRONMENT
	A3.1	ENVIRONMENT
Aspect A4: Climate Change	General Disclosure	ENVIRONMENT • Tackling Climate Change
	A4.1	ENVIRONMENT • Tackling Climate Change
Aspect B1: Employment	General Disclosure	OUR PEOPLE
	B1.1	OUR PEOPLE • Employment Data Summary
	B1.2	OUR PEOPLE • Employment Data Summary

Disclosure Requirements		Sections in this Report
Aspect B2: Health and Safety	General Disclosure	OUR PEOPLE • Health and Safety
	B2.1	OUR PEOPLE • Employment Data Summary
	B2.2	OUR PEOPLE • Employment Data Summary
	B2.3	OUR PEOPLE • Health and Safety
Aspect B3: Development and Training	General Disclosure	OUR PEOPLE • Growth and Development
	B3.1	OUR PEOPLE • Employment Data Summary
	B3.2	OUR PEOPLE • Employment Data Summary
Aspect B4: Labour Standards	General Disclosure	OUR PEOPLE
	B4.1	OUR PEOPLE • Rights and Benefits
	B4.2	OUR PEOPLE • Rights and Benefits
Aspect B5: Supply Chain Management	General Disclosure	OPERATING PRINCIPLES AND PRACTICES • Supply Chain Management
	B5.1	OPERATING PRINCIPLES AND PRACTICES • Supply Chain Management
	B5.2	OPERATING PRINCIPLES AND PRACTICES • Supply Chain Management
	B5.3	OPERATING PRINCIPLES AND PRACTICES • Supply Chain Management
	B5.4	OPERATING PRINCIPLES AND PRACTICES • Supply Chain Management

Disclosure Requirements		Sections in this Report
Aspect B6: Product Responsibility	General Disclosure	PRODUCT RESPONSIBILITY
	B6.1	Not closely relevant to the Company's main businesses
	B6.2	PRODUCT RESPONSIBILITY • Customer Service
	B6.3	PRODUCT RESPONSIBILITY • Intellectual Property
	B6.4	PRODUCT RESPONSIBILITY • User Privacy • Data Security • User Protection The "recall procedures" is not closely relevant to the Company's main business
	B6.5	PRODUCT RESPONSIBILITY • User Privacy
Aspect B7: Anti-corruption	General Disclosure	OPERATING PRINCIPLES AND PRACTICES • Anti-Corruption
	B7.1	OPERATING PRINCIPLES AND PRACTICES • Anti-Corruption
	B7.2	OPERATING PRINCIPLES AND PRACTICES • Anti-Corruption
	B7.3	OPERATING PRINCIPLES AND PRACTICES • Anti-Corruption
Aspect B8: Community Investment	General Disclosure	COMMUNITY
	B8.1	COMMUNITY • Community Investment
	B8.2	COMMUNITY • Charity Donation • Volunteering

Independent Auditor's Report

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 169 to 310, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual items
- Impairment assessments of goodwill, investments in associates and joint ventures
- Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities

Key Audit Matter

Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual items

Refer to Notes 2.28(a), 4(a) and 5(b) to the consolidated financial statements

The Group recognises revenue from sales of virtual items to the users in respect of value-added services rendered on the Group's online platforms. The relevant revenue is recognised over the lifespans of the respective virtual items determined by the management, on an item by item basis, with reference to the expected users' relationship periods or the stipulated period of validity of the relevant virtual items, depending on the terms of the virtual items.

During the year ended 31 December 2021, majority of the Group's revenue from value-added services was contributed by online games and was predominately derived from the sales of virtual items.

We focused on this area due to the fact that management applied significant judgments in determining the expected users' relationship periods for certain virtual items. These judgments included (i) the determination of key assumptions applied in the expected users' relationship periods, including but not limited to historical users' consumption patterns, churn rates and reactivity on marketing activities, games life-cycle, and the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected users' relationship periods.

How our audit addressed the Key Audit Matter

We discussed with management and evaluated their judgments on key assumptions in determining the estimated lifespans of the virtual items that were based on the expected users' relationship periods.

We tested, on a sample basis, key controls in respect of the recognition of revenue from sales of virtual items, including management's review and approval of (i) determination of the estimated lifespans of new virtual items prior to their launches; and (ii) changes in the estimated lifespans of existing virtual items based on periodic reassessment on any indications triggering such changes. We also assessed the data generated from the Group's information system supporting the management's review, tested the information system logic for generation of reports, and checked, on a sample basis, the monthly computation of revenue recognised on selected virtual items generated directly from the Group's information system.

We assessed, on a sample basis, the expected users' relationship periods adopted by management by testing the data integrity of historical users' consumption patterns and calculation of the churn rates. We also evaluated the consideration made by management in determining the underlying assumptions for expected users' relationship periods with reference to historical operating and marketing data of the relevant games. We also assessed, on a sample basis, the historical accuracy of the management's estimation process by comparing the actual users' relationship periods for the year against the original estimation for selected virtual items.

We found that the results of our procedures performed to be materially consistent with management's assessment.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and joint ventures	
Refer to Notes 2.12(a), 2.14, 4(b), 20, 21 and 22 to the consolidated financial statements As at 31 December 2021, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB112,173 million, RMB316,574 million and RMB6,614 million, respectively. Impairment of RMB8,702 million, RMB15,391 million and RMB904 million had been provided for against the carrying amounts of goodwill, investments in associates and investments in joint ventures, respectively, during the year ended 31 December 2021. We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgments were required by management (i) to identify whether any impairment indicators existed for any of these assets during the year; (ii) to determine the appropriate impairment approaches, i.e. fair value less costs of disposal or value in use; and (iii) to select key assumptions to be adopted in the valuation models, including discounted cash flows and market approach, for the impairment assessments.	We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information. We also tested, on a sample basis, key controls in respect of the impairment assessments, including the determination of appropriate impairment approaches, valuation models and assumptions and the calculation of impairment provisions, where we found no material exceptions. Management adopted different valuation models, on a case by case basis, in carrying out the impairment assessments, mainly including discounted cash flows and market approach. We assessed, on a sample basis, the basis management used to identify separate groups of cash generating units that contain goodwill, the impairment approaches and the valuation models used in management's impairment assessments, which we found to be appropriate.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and joint ventures (continued)	In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using discounted cash flows, we assessed the key assumptions adopted including revenue growth rates, profit margins, discount rates and other assumptions by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable industry/business data external to the Group. We assessed certain of these key assumptions with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management were in line with our expectation and evidence obtained. In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using market approach, we assessed the valuation assumptions including the selection of comparable companies, recent market transactions, and liquidity discount for lack of marketability, etc. We assessed these key assumptions adopted by management with the involvement of our internal valuation experts based on our industry knowledge and independent research performed by us. We considered that the key assumptions adopted by management were in line with our expectation and evidence obtained. We independently tested, on a sample basis, the accuracy of mathematical calculation applied in the valuation models and the calculation of impairment charges. We did not identify any material exceptions from our testing.

Key Audit Matter

Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities

Refer to Notes 3.3, 4(c), 24, 25 and 39 to the consolidated financial statements

As at 31 December 2021, the Group's financial assets and financial liabilities which were carried at fair value mainly comprised financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities of approximately RMB202,757 million, RMB250,257 million and RMB2,802 million, respectively, of which approximately RMB193,591 million of these financial assets and approximately RMB2,444 million of these financial liabilities were measured based on significant unobservable inputs and classified as "Level 3 financial instruments".

We focused on this area due to the high degree of judgment required in determining the respective fair values of Level 3 financial instruments, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation.

How our audit addressed the Key Audit Matter

In respect of the fair value measurement of Level 3 financial instruments, we tested the key controls, on a sample basis, in relation to the valuation process including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review, where we found no material exceptions.

We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested, on a sample basis, valuation of Level 3 financial instruments as at 31 December 2021 by evaluating the underlying assumptions and inputs including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) as well as underlying supporting documentation. We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. We found that the valuation methodology of Level 3 financial instruments was acceptable and the assumptions made by management were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tong Yu Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2022

Consolidated Income Statement

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 RMB'Million	2020 RMB'Million
Revenues			
Value-added Services		**291,572**	264,212
Online Advertising		**88,666**	82,271
FinTech and Business Services		**172,195**	128,086
Others		**7,685**	7,495
	5	**560,118**	482,064
Cost of revenues	8	**(314,174)**	(260,532)
Gross profit		**245,944**	221,532
Interest income	6	**6,650**	6,957
Other gains, net	7	**149,467**	57,131
Selling and marketing expenses	8	**(40,594)**	(33,758)
General and administrative expenses	8	**(89,847)**	(67,625)
Operating profit		**271,620**	184,237
Finance costs, net	9	**(7,114)**	(7,887)
Share of (loss)/profit of associates and joint ventures, net	10	**(16,444)**	3,672
Profit before income tax		**248,062**	180,022
Income tax expense	11	**(20,252)**	(19,897)
Profit for the year		**227,810**	160,125
Attributable to:			
Equity holders of the Company		**224,822**	159,847
Non-controlling interests		**2,988**	278
		227,810	160,125
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	12(a)	**23.597**	16.844
– diluted	12(b)	**23.164**	16.523

The notes on pages 180 to 310 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	2021 RMB'Million	2020 RMB'Million
		Year ended 31 December	
Profit for the year		**227,810**	160,125
Other comprehensive income, net of tax:			
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive income of associates and joint ventures		**125**	334
Transfer of share of other comprehensive loss/(income) to profit or loss upon disposal and deemed disposal of associates and joint ventures		**8**	(3)
Currency translation differences		**(19,392)**	(7,262)
Other fair value gains/(losses)		**2,796**	(1,552)
Items that will not be subsequently reclassified to profit or loss			
Share of other comprehensive income of associates and joint ventures		**387**	–
Gain from changes in fair value of assets held for distribution	32	**5,380**	–
Net (losses)/gains from changes in fair value of financial assets at fair value through other comprehensive income		**(16,166)**	130,525
Currency translation differences		**(558)**	(1,285)
Other fair value gains		**–**	291
		(27,420)	121,048
Total comprehensive income for the year		**200,390**	281,173
Attributable to:			
Equity holders of the Company		**200,323**	277,834
Non-controlling interests		**67**	3,339
		200,390	281,173

The notes on pages 180 to 310 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	As at 31 December 2021 RMB'Million	2020 RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	**61,914**	59,843
Land use rights	17	**17,728**	16,091
Right-of-use assets	18	**20,468**	12,929
Construction in progress	19	**5,923**	4,939
Investment properties		**517**	583
Intangible assets	20	**171,376**	159,437
Investments in associates	21	**316,574**	297,609
Investments in joint ventures	22	**6,614**	7,649
Financial assets at fair value through profit or loss	24	**192,184**	165,944
Financial assets at fair value through other comprehensive income	25	**250,257**	213,091
Prepayments, deposits and other assets	26	**37,177**	24,630
Other financial assets	27	**1,261**	4
Deferred income tax assets	28	**26,068**	21,348
Term deposits	29	**19,491**	31,681
		1,127,552	1,015,778
Current assets			
Inventories		**1,063**	814
Accounts receivable	30	**49,331**	44,981
Prepayments, deposits and other assets	26	**65,390**	40,321
Other financial assets	27	**1,749**	1,133
Financial assets at fair value through profit or loss	24	**10,573**	6,593
Term deposits	29	**83,813**	68,487
Restricted cash	31	**2,476**	2,520
Cash and cash equivalents	31	**167,966**	152,798
Assets held for distribution	32	**102,451**	–
		484,812	317,647
Total assets		**1,612,364**	1,333,425

Consolidated Statement of Financial Position

As at 31 December 2021

		As at 31 December	
		2021	2020
	Note	**RMB'Million**	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	33	**–**	–
Share premium	33	**67,330**	48,793
Shares held for share award schemes	33	**(4,843)**	(4,412)
Other reserves	34	**73,901**	121,139
Retained earnings		**669,911**	538,464
		806,299	703,984
Non-controlling interests		**70,394**	74,059
Total equity		**876,693**	778,043
LIABILITIES			
Non-current liabilities			
Borrowings	36	**136,936**	112,145
Notes payable	37	**145,590**	122,057
Long-term payables	38	**9,966**	9,910
Other financial liabilities	39	**5,912**	9,254
Deferred income tax liabilities	28	**13,142**	16,061
Lease liabilities	18	**16,501**	10,198
Deferred revenue	5(c)(i)	**4,526**	6,678
		332,573	286,303

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	As at 31 December 2021 RMB'Million	2020 RMB'Million
Current liabilities			
Accounts payable	40	**109,470**	94,030
Other payables and accruals	41	**60,582**	54,308
Borrowings	36	**19,003**	14,242
Current income tax liabilities		**12,506**	12,134
Other tax liabilities		**2,240**	2,149
Other financial liabilities	39	**3,554**	5,567
Lease liabilities	18	**5,446**	3,822
Deferred revenue	5(c)(i)	**87,846**	82,827
Dividends payable for distribution in specie	15(b)	**102,451**	–
		403,098	269,079
Total liabilities		**735,671**	555,382
Total equity and liabilities		**1,612,364**	1,333,425

The notes on pages 180 to 310 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 169 to 310 were approved by the Board of Directors on 23 March 2022 and were signed on its behalf:

Ma Huateng
Director

Lau Chi Ping Martin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2021	–	48,793	(4,412)	121,139	538,464	703,984	74,059	778,043
Comprehensive income								
Profit for the year	–	–	–	–	224,822	224,822	2,988	227,810
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	512	–	512	–	512
– transfer of share of other comprehensive loss to profit or loss upon disposal and deemed disposal of associates and joint ventures	–	–	–	8	–	8	–	8
– gain from changes in fair value of assets held for distribution	–	–	–	5,380	–	5,380	–	5,380
– net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	(15,073)	–	(15,073)	(1,093)	(16,166)
– currency translation differences	–	–	–	(18,032)	–	(18,032)	(1,918)	(19,950)
– other fair value gains, net	–	–	–	2,706	–	2,706	90	2,796
Total comprehensive income for the year	–	–	–	(24,499)	224,822	200,323	67	200,390
Transfer of gains on disposal and deemed disposal of financial instruments to retained earnings	–	–	–	(22,393)	22,393	–	–	–
Transfer of share of other comprehensive income to retained earnings upon disposal and deemed disposal of associates and joint ventures	–	–	–	(35)	35	–	–	–
Share of other changes in net assets of associates and joint ventures	–	–	–	8,429	–	8,429	1	8,430
Transfer of share of other changes in net assets of associates and joint ventures to profit or loss upon disposal and deemed disposal	–	–	–	(5,089)	–	(5,089)	–	(5,089)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	612	612
Employee share option schemes:								
– value of employee services	–	1,661	–	53	–	1,714	54	1,768
– proceeds from shares issued	–	1,043	–	–	–	1,043	–	1,043
Employee share award schemes:								
– value of employee services	–	18,347	–	611	–	18,958	543	19,501
– shares withheld for share award schemes	–	–	(2,827)	–	–	(2,827)	–	(2,827)
– vesting of awarded shares	–	(2,090)	2,090	–	–	–	–	–
Tax benefit from share-based payments	–	–	–	462	–	462	–	462
Profit appropriations to statutory reserves	–	–	–	669	(669)	–	–	–
Repurchase and cancellation of shares	–	(2,170)	–	–	–	(2,170)	–	(2,170)
Cash dividends	–	–	–	–	(12,683)	(12,683)	(1,015)	(13,698)
Dividends distribution in specie (Note 15(b))	–	–	–	–	(102,451)	(102,451)	–	(102,451)
Distributions from a non wholly-owned subsidiary	–	–	–	–	–	–	(1,401)	(1,401)
Non-controlling interests arising from business combinations (Note 42)	–	–	–	–	–	–	1,289	1,289
Disposal and deemed disposal of subsidiaries	–	–	–	–	–	–	(33)	(33)
Acquisition of additional equity interests in non wholly-owned subsidiaries	–	–	–	(4,305)	–	(4,305)	(4,616)	(8,921)
Dilution of/changes in interests in subsidiaries	–	–	–	205	–	205	736	941
Changes in put option liabilities in respect of non-controlling interests	–	–	–	1,483	–	1,483	88	1,571
Lapses of put option liabilities in respect of non-controlling interests	–	–	–	783	–	783	–	783
Recognition of put option liabilities arising from business combinations	–	–	–	(1,289)	–	(1,289)	–	(1,289)
Transfer of equity interests of subsidiaries to non-controlling interests	–	1,746	306	(2,323)	–	(271)	10	(261)
Total transactions with equity holders at their capacity as equity holders for the year	–	18,537	(431)	(3,651)	(115,803)	(101,348)	(3,733)	(105,081)
Balance at 31 December 2021	–	67,330	(4,843)	73,901	669,911	806,299	70,394	876,693

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2020	–	35,271	(4,002)	16,786	384,651	432,706	56,118	488,824
Comprehensive income								
Profit for the year	–	–	–	–	159,847	159,847	278	160,125
Other comprehensive income, net of tax:								
– share of other comprehensive income/(loss) of associates and joint ventures	–	–	–	347	–	347	(13)	334
– transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates	–	–	–	(3)	–	(3)	–	(3)
– net gains from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	127,873	–	127,873	2,652	130,525
– currency translation differences	–	–	–	(9,016)	–	(9,016)	469	(8,547)
– other fair value losses, net	–	–	–	(1,214)	–	(1,214)	(47)	(1,261)
Total comprehensive income for the year	–	–	–	117,987	159,847	277,834	3,339	281,173
Transfer of gains on disposal and deemed disposal of financial instruments to retained earnings	–	–	–	(5,151)	5,151	–	–	–
Share of other changes in net assets of associates and joint ventures	–	–	–	3,320	–	3,320	(2)	3,318
Transfer of share of other changes in net assets of associates to profit or loss upon disposal and deemed disposal	–	–	–	(154)	–	(154)	–	(154)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	314	314
Employee share option schemes:								
– value of employee services	–	1,768	–	60	–	1,828	62	1,890
– proceeds from shares issued	–	1,716	–	–	–	1,716	–	1,716
Employee share award schemes:								
– value of employee services	–	9,720	–	413	–	10,133	433	10,566
– shares withheld for share award schemes	–	–	(1,865)	–	–	(1,865)	–	(1,865)
– vesting of awarded shares	–	(1,209)	1,209	–	–	–	–	–
Tax benefit from share-based payments	–	–	–	588	–	588	–	588
Profit appropriations to statutory reserves	–	–	–	736	(736)	–	–	–
Dividends	–	–	–	–	(10,449)	(10,449)	(1,176)	(11,625)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	12,459	12,459
Disposal and deemed disposal of subsidiaries	–	–	–	–	–	–	15	15
Acquisition of additional equity interests in non wholly-owned subsidiaries	–	–	–	(2,795)	–	(2,795)	(3,180)	(5,975)
Dilution of/changes in interests in subsidiaries	–	–	–	(684)	–	(684)	1,407	723
Changes in put option liabilities in respect of non-controlling interests	–	–	–	(765)	–	(765)	(293)	(1,058)
Recognition of put option liabilities arising from business combinations	–	–	–	(2,730)	–	(2,730)	–	(2,730)
Transfer of equity interests of subsidiaries to non-controlling interests	–	1,527	246	(6,472)	–	(4,699)	4,563	(136)
Total transactions with equity holders at their capacity as equity holders for the year	–	13,522	(410)	(11,649)	(11,185)	(9,722)	14,604	4,882
Balance at 31 December 2020	–	48,793	(4,412)	121,139	538,464	703,984	74,059	778,043

The notes on pages 180 to 310 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	2021 RMB'Million	2020 RMB'Million
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	43(a)	**203,712**	214,441
Income tax paid		**(28,526)**	(20,322)
Net cash flows generated from operating activities		**175,186**	194,119
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		**(21,944)**	(15,097)
Net inflow of cash in respect of disposal of a subsidiary		**–**	15
Purchase of property, plant and equipment, construction in progress and investment properties		**(29,302)**	(34,070)
Proceeds from disposals of property, plant and equipment		**191**	–
Purchase of/prepayment for intangible assets		**(31,159)**	(27,182)
Purchase of/prepayment for land use rights		**(1,704)**	(5,347)
Payments for acquisition of investments in associates		**(50,091)**	(30,533)
Proceeds from disposals of investments in associates		**4,035**	2,208
Payments for acquisition of investments in joint ventures		**(364)**	(247)
Proceeds from disposals of investments in joint ventures		**1,383**	–
Payments for acquisition of financial assets at fair value through other comprehensive income		**(28,251)**	(12,719)
Proceeds from disposals of financial assets at fair value through other comprehensive income		**33,521**	7,648
Payments for acquisition of financial assets at fair value through profit or loss		**(79,350)**	(60,066)
Proceeds from disposals of financial assets at fair value through profit or loss		**28,800**	13,168
Payments for acquisition/settlements of other financial instruments		**(2,202)**	(859)
Proceeds from disposals of other financial assets		**338**	1,626
Payments for loans to investees and others		**(11,251)**	(1,755)
Loans repayments from investees and others		**1,127**	484
Receipt from maturity of term deposits with initial terms of over three months		**55,140**	32,177
Placement of term deposits with initial terms of over three months		**(55,713)**	(59,169)
Interest received		**4,923**	5,610
Dividends received		**3,324**	2,153
Net cash flows used in investing activities		**(178,549)**	(181,955)

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Year ended 31 December	
	2021	2020
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	**23,103**	5,090
Repayments of short-term borrowings	**(22,944)**	(8,512)
Proceeds from long-term borrowings	**33,348**	26,323
Repayments of long-term borrowings	**(777)**	(15,899)
Net proceeds from issuance of notes payable	**27,060**	47,948
Repayments of notes payable	**–**	(10,460)
Principal elements of lease payments	**(4,423)**	(3,537)
Interest paid	**(7,525)**	(7,076)
Payments for repurchase of shares	**(2,170)**	–
Proceeds from issuance of ordinary shares as a result of exercise of share options	**1,043**	1,716
Shares withheld for share award schemes	**(2,827)**	(1,865)
Proceeds from issuance of additional equity of non wholly-owned subsidiaries	**727**	600
Proceeds from partial disposals of equity interests in non wholly-owned subsidiaries	**110**	–
Payments for acquisition of non-controlling interests in non wholly-owned subsidiaries	**(9,199)**	(9,263)
Dividends paid to the Company's shareholders	**(12,503)**	(10,339)
Dividends paid to non-controlling interests	**(1,403)**	(1,079)
Net cash flows generated from financing activities	**21,620**	13,647
Net increase in cash and cash equivalents	**18,257**	25,811
Cash and cash equivalents at beginning of the year	**152,798**	132,991
Exchange losses on cash and cash equivalents	**(3,089)**	(6,004)
Cash and cash equivalents at end of the year	**167,966**	152,798

The notes on pages 180 to 310 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Tencent Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of Value-added Services ("VAS"), Online Advertising services and FinTech and Business Services.

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer"), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the "Registered Shareholders").

The PRC regulations restrict foreign ownership of companies that provide value-added telecommunications services, which include activities and services operated by Tencent Computer. In order to enable the Company to own and control the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), which is a wholly foreign owned enterprise incorporated in the PRC, on 24 February 2000.

Under a series of contractual arrangements (collectively, "Structure Contracts") entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things:

- the right to receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;

- the right to ensure that Tencent Technology owns the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer; and

- the right to control the management, financial and operating policies of Tencent Computer.

1 GENERAL INFORMATION (continued)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.2(a) and Note 48) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 48.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("FVPL"), financial assets at fair value through other comprehensive income ("FVOCI"), dividends payable for distribution in specie, certain other financial assets and liabilities, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Amendments to standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark reform – phase 2 ("phase 2")

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments to standards adopted by the Group (continued)

The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures. The Group has floating rate debts, linked to USD LIBOR, including borrowings and senior notes, whose cash flows are hedged by using interest rate swaps. The LIBOR benchmark in which the Group continues to have hedging instrument is USD LIBOR. It is expected that the transition out of USD LIBOR hedging derivatives will be completed before 30 June 2023, and no significant impact arose as a result of applying those amendments during the year ended 31 December 2021.

(b) New standards and amendments to standards issued but not yet effective

The following new standards and amendments to standards have not come into effect for the financial year beginning on 1 January 2021 and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 28 and IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020 Cycle	1 January 2022
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and amendments to standards issued but not yet effective (continued)

The Group considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, when differences on settlement of the liabilities and the amortisation of right-of-use assets arise, there will be a net temporary difference on which deferred income tax is recognised. Upon the effective date of amendments to IAS 12 on 1 January 2023, the Group will need to recognise a deferred income tax asset and a deferred income tax liability for the temporary differences arising on a lease on initial recognition.

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement, which is recognised under "Other financial assets" or "Other financial liabilities" in the consolidated financial statements. Identifiable assets acquired and liabilities and contingent consideration assumed in a business combination are measured initially at their fair values at the acquisition date.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Business combinations (continued)

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the total of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

(a) Consolidation (continued)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or a financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means that amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable IFRSs.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 48(f)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust", and will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition of the Company's shares.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include underlying goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. Where the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method, including investments in associates and joint arrangements (Note 2.4), are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other gains/(losses), net" in the consolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to consolidated income statement where appropriate.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.4 Joint arrangements

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Joint ventures

Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profit or loss and movements in other comprehensive income. Where the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any other unsecured long-term receivables that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Investments in associates/joint ventures achieved in stages

The cost of associates/joint ventures acquired in stages, except for the change from an associate to a joint venture, is measured as the sum of the fair value of the interests previously held plus the fair value of any additional consideration transferred as of the date when they become associates/joint ventures. A gain or loss on remeasurement of the previously held interests is taken to the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.6 Disposal of associates and joint ventures

When the Group ceases to continue equity accounting for an associate or joint venture because of a loss of significant influence or joint control, it measures any retained investment at fair value. A gain or loss is recognised at any difference between the fair value of any retained interest plus any proceeds from disposing part of the interests in the associate or joint venture and the carrying amount of the investment at the date the equity method of accounting was discontinued. The amounts previously recognised in other comprehensive income in respect of an associate or joint venture should be reclassified to the consolidated income statement or transferred to another category of equity as specified and permitted by applicable IFRSs when the Group ceases to continue equity accounting for the associate or joint venture.

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.8 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and certain of its overseas subsidiaries is United States Dollars ("USD"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in Renminbi ("RMB"), unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.8 Foreign currency translation (continued)

(b) Transactions and balances (continued)

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified as FVOCI, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 Property, plant and equipment

All property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost net of their residual values over their estimated useful lives, as follows:

Buildings	20 ~ 50 years
Computer and other operating equipment	2 ~ 10 years
Furniture and office equipment	2 ~ 5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of their useful lives and the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction costs less any impairment loss. Construction in progress is transferred to property, plant and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.14).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in "Other gains/(losses), net" in the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs net of their residual values over their estimated useful lives of 20-50 years. Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts (Note 2.14).

2.11 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated income statement on a straight-line basis over the remaining period of the lease.

2.12 Intangible assets

(a) Goodwill

Goodwill on acquisition of subsidiaries is recognised as described in Note 2.2(a) and included in "Intangible assets" in the consolidated financial statements.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of the CGU or group of CGUs including the allocated goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately under "Other gains/(losses), net" and is not subsequently reversed.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Intangible assets (continued)

(b) Media contents

Media contents mainly include game licenses, video and music contents, and literature copyrights. They are initially recognised and measured at cost or estimated fair value as acquired through business combinations. Media contents are amortised using a straight-line method or an accelerated method which reflects the estimated consumption patterns.

(c) Other intangible assets

Other intangible assets mainly include trademarks, other copyrights, computer software and technology, non-compete agreements, customer relationships and land with indefinite useful life. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Land with indefinite useful life is not subject to amortisation and impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Other intangible assets are amortised over their estimated useful lives (generally one to ten years) using the straight-line method which reflects the pattern in which the intangible assets' future economic benefits are expected to be consumed.

2.13 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 48(f)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and the amount is deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award schemes", with a corresponding adjustment made to "Share premium".

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.14 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Investments and other financial assets

(a) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Except for accounts receivable, at initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.15 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Initial recognition and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt investment measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest method.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net" in the consolidated income statement. Interest income from these financial assets is recognised using the effective interest method. Foreign exchange gains and losses are presented in "Finance costs, net" and impairment losses or reversals are presented in "Other gains/(losses), net".

- FVPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "Other gains/(losses), net" for the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.15 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Equity instruments

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group's management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they meet the definition of equity instrument under IAS 32 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made the irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as "Other gains/(losses), net" when the Group's right to receive payments is established. Equity instruments designated as FVOCI are not subject to impairment assessment.

FVPL include financial assets designated upon initial recognition at fair value through profit or loss and financial assets that do not meet the criteria for amortised cost or FVOCI. Changes in the fair value of FVPL are recognised in "Other gains/(losses), net" in the consolidated income statement.

(b) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, which are recognised under "Other financial assets" and "Other financial liabilities" in the consolidated financial statements, respectively. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). The Group documents at the inception of the hedging relationship the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the hedge effectiveness requirements under IFRS 9. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through other comprehensive income within equity, while any ineffective portion is recognised immediately in profit or loss, within "Other gains/(losses), net".

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ("aligned time value") are recognised within other comprehensive income in the costs of hedging reserve within equity.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Derivative and hedging activities (continued)

Amounts accumulated in equity are accounted for, depending on the nature of the underlying hedged transaction, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, the amounts accumulated in equity are removed from other reserves and included within the initial cost of the asset. These deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.

- For any other cash flow hedges, the gain or loss relating to the effective portion of the derivatives is reclassified to profit or loss at the same time when the hedged cash flows affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging included in equity are immediately reclassified to profit or loss.

Hedge relationships

The "phase 2" amendments address issues arising during interest rate benchmark reform, including specifying when the Interest rate benchmark reform – phase 1 ("phase 1") amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate as the hedged risk are permitted.

The "phase 1" amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by Inter Bank Offered Rate ("IBOR") reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness continued to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from interest rate benchmark reform no longer being present.

The LIBOR benchmark in which the Group continues to have hedging instrument is USD LIBOR, for which it is expected that the transition out will be completed before 30 June 2023. The Group will update its hedge documentation to reflect the changes in designation (including designating an alternative benchmark rate as a hedged risk, amending the description of the hedged item, and amending the description of hedging instrument) by the end of the reporting period in which the changes are made. These amendments to the hedge documentation do not require the Group to discontinue its hedge relationships.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in certain circumstances, such as default, insolvency, bankruptcy or the termination of a contract.

2.18 Inventories

Inventories, mainly consisting of merchandise for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

2.19 Accounts receivable

Accounts receivable are amounts due from customers or agents for services performed or merchandise sold in the ordinary course of business. Accounts receivable are presented as current assets unless collection is not expected within 12 months after the end of the reporting period.

Accounts receivable are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment that is subject to expected credit loss model (Note 3.1(b)).

2.20 Cash and cash equivalents

Cash and cash equivalents mainly include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with initial maturities of three months or less.

The Group does not recognise cash amounts deposited with banks in the Mainland of China (which are received under its payment business) under users' entrustment in the consolidated statement of financial position as the Group holds these cash amounts as a custodian according to the relevant users' agreements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any Group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders as treasury shares until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.22 Accounts payable

Accounts payable are obligations to pay for services or goods that have been acquired in the ordinary course of business from suppliers. Accounts payable are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.23 Put option arrangements on non-controlling interest

Put options on non-controlling interest of the Group are financial instruments granted by the Group which permit the holders to put back to the Group their shares in certain non wholly-owned subsidiaries of the Group for cash or other financial instruments when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial instruments under the put option, a financial liability is initially recognised under "Other financial liabilities" in the consolidated financial statements at the present value of the estimated future cash outflows on exercise under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount based on the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustment will be recognised in the consolidated statement of changes in equity. In the event that the put option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The put option liabilities are current liabilities unless the put option first becomes exercisable 12 months after the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.24 Borrowings, notes payable and borrowing costs

Borrowings and notes payable issued by the Group are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over their terms using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan facilities to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the term of the facility to which it relates.

Borrowings and notes payable are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific finance costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year ended 31 December 2021, finance cost capitalised was insignificant to the Group.

2.25 Current and deferred income tax

The income tax expense for the year comprises current and deferred income tax, which is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the income tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. When it is not probable, the Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.25 Current and deferred income tax (continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and tax losses.

Deferred income tax liabilities are provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liability in relation to taxable temporary differences arising from the associates' and joint ventures' undistributed profit is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior years. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

(c) Long-term employee benefit obligations

In addition to participating in the defined contribution plan as described above, the Group also provides commercial health insurance benefits to certain eligible employees till their resignation or retirement. These obligations are classified as non-current liabilities unless it is expected to be settled wholly within 12 months after the end of the reporting period.

These long-term employee benefit obligations are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. For currencies for which there is no deep market in such high-quality corporate bonds, the market yields on government bonds denominated in that currency were applied. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Employee benefits (continued)

(d) Long-term service awards

The Group recognises a liability and an expense for long-term service awards where cash is paid to retired employees qualified for certain criteria as one-off retirement bonus and it was considered as defined benefit plan. The method of accounting is similar to those used for long-term employee benefits as described above, except that remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they occur.

(e) Share-based compensation benefits

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

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

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

From the perspective of the Company, the grants of its equity instruments to employees of its subsidiaries are made in exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses are treated as part of the "Investments in subsidiaries" or "Other receivables" in the Company's statement of financial position.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Employee benefits (continued)

(e) Share-based compensation benefits (continued)

At each reporting period end, the Group revises the estimates of the number of options and awarded shares that are expected to ultimately vest. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement of the Group, with a corresponding adjustment to equity.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. When the vested equity instruments are later forfeited prior to expiry date, the amount previously recognised in share premium will be transferred to retained earnings.

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

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

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

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.28 Revenue recognition

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

(a) VAS

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Revenue recognition (continued)

(a) VAS (continued)

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

In respect of the Group's VAS directly delivered to the Group's customers and paid through various third-party platforms, these third-party platforms collect the relevant service fees (the "Online Service Fees") on behalf of the Group and they are entitled to a pre-determined percentage of platform provider fees (as part of "Channel and distribution costs"). Such Channel and distribution costs are withheld and deducted from the gross Online Service Fees collected by these platforms from the users, with the net amounts remitted to the Group. The Group recognises the Online Service Fees as revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in these transactions based on the assessment according to the criteria stated in (e) below.

The Group also opens its online platforms to third-party game/application developers under certain co-operation agreements, of which the Group pays to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of the Group's online platforms for the virtual items purchased. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction.

The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Revenue recognition (continued)

(b) Online Advertising

Online Advertising revenues mainly comprise revenues derived from media advertisements and from social and other 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 depending on the contractual measures. Revenue from performance-based advertising is recognised when relevant specific performance measures are fulfilled. Where the contracts include multiple performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

(c) FinTech and Business Services

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Revenue recognition (continued)

(d) Other revenues

The Group's other revenues are primarily derived from production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities. The Group recognises other revenues when the respective services are rendered, or when the control of the products is transferred to customers.

(e) Principal agent consideration

The Group reports the revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but are not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

(f) Contract liabilities and contract costs

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise virtual items, unamortised pre-paid tokens or cards, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the inception dates, and customer loyalty incentives offered to the customers (Note 5(c)).

Contract costs include incremental costs of obtaining a contract and costs to fulfil a contract with the customers. The contract costs are amortised using a method which is consistent with the pattern of recognition of the respective revenues. The Group has applied the practical expedient to recognise the contract cost relating to obtaining a contract as an expense when incurred, if otherwise the amortisation period is one year or less.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "Interest income" where it is mainly earned from financial assets that are held for cash management purposes.

2.30 Dividend income

Dividends are received from FVPL and FVOCI. Dividends are recognised in "Other gains/(losses), net" in the consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at FVOCI.

2.31 Government grants/subsidies

Grants/Subsidies from government are recognised at their fair values where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs and expenses which the grants/subsidies are intended to compensate.

2.32 Leases

The Group leases land (Note 2.11), various buildings, computer and other operating equipment and others. Rental contracts other than land are typically made for fixed periods of no longer than 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. A right-of-use asset arising from land lease is presented as "Land use rights".

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.32 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.32 Leases (continued)

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

A right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.33 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividend is approved by the Company's shareholders or board of directors where appropriate and no longer at the discretion of the Group.

In respect of a dividend by way of distribution of non-cash assets, the liability to distribute the non-cash assets as a dividend is measured at the fair value of the assets to be distributed on the declaration date. At the end of the reporting period and at the date of settlement, the Group reviews and adjusts the carrying amount of the dividend liability, and any subsequent change in the fair value of the dividend liability is recognised in equity as an adjustment to the amount of the dividend distribution. Upon settlement, the difference between the fair value of the assets distributed, which is also the carrying amount of the dividend liability, and the carrying amount of the assets distributed, if any, is recognised in profit or loss.

The non-cash assets to be distributed are presented as "Assets held for distribution" in the consolidated statement of financial position.

2.34 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the management of the Group.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong Dollars ("HKD"), USD and Euro ("EUR"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's subsidiaries. The functional currency of the Company and majority of its overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

As at 31 December 2021, the Group's major monetary assets and liabilities exposed to foreign exchange risk are listed below:

	USD denominated RMB'Million	Non-USD denominated RMB'Million
As at 31 December 2021		
Monetary assets, current	**11,059**	**4,587**
Monetary assets, non-current	**–**	**–**
Monetary liabilities, current	**(6,224)**	**(2,671)**
Monetary liabilities, non-current	**(5,241)**	**(721)**
	(406)	**1,195**
As at 31 December 2020		
Monetary assets, current	10,238	3,902
Monetary assets, non-current	34	4
Monetary liabilities, current	(8,650)	(2,408)
Monetary liabilities, non-current	(6,663)	(1,021)
	(5,041)	477

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

During the year ended 31 December 2021, the Group reported exchange gains of approximately RMB804 million (2020: exchange losses of approximately RMB438 million) within "Finance costs, net" in the consolidated income statement.

As at 31 December 2021, management considers that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currencies are considered to be not significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

(ii) Price risk

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified either as FVPL (Note 24) or FVOCI (Note 25). To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group's liquidity level simultaneously. Each investment is managed by management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL and FVOCI at the end of each reporting period. If prices of the respective instruments held by the Group had been 5% (31 December 2020: 5%) higher/lower as at 31 December 2021, profit for the year would have been approximately RMB9,815 million (2020: RMB8,326 million) higher/lower as a result of gains/losses on financial instruments classified as at FVPL, other comprehensive income would have been approximately RMB12,348 million (2020: RMB10,529 million) higher/lower as a result of gains/losses on financial instruments classified as at FVOCI.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents, details of which have been disclosed in Notes 26, 29 and 31.

If the interest rate of term deposits with initial terms of over three months had been 50 basis points higher/lower, the profit before income tax for the year ended 31 December 2021 would have been RMB517 million (2020: RMB501 million) higher/lower. If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended 31 December 2021 would have been RMB840 million (2020: RMB764 million) higher/lower.

The Group's exposure to changes in interest rates is also attributable to its borrowings and notes payable, details of which have been disclosed in Notes 36 and 37, representing a substantial portion of the Group's debts. Borrowings and notes payable carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

The Group regularly monitors its interest rate risk to identify if there are any undue exposures to significant interest rate movements and manages its cash flow interest rate risk by using interest rate swaps, whenever considered necessary.

The Group entered into certain interest rate swap contracts to hedge its exposure arising from borrowings and senior notes carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings and senior notes from floating rates to fixed rates and were qualified for hedge accounting. Details of the Group's outstanding interest rate swap contracts as at 31 December 2021 are mainly disclosed in both Note 27 and 39.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

	2021 RMB'Million	2020 RMB'Million
Interest rate swaps		
Carrying amount (current assets)	**–**	1
Carrying amount (non-current assets)	**1,253**	4
Carrying amount (current liabilities)	**(109)**	–
Carrying amount (non-current liabilities)	**(249)**	(1,937)
Notional amount	**104,708**	100,889
Maturity date	**2022/3/29 ~ 2026/2/24**	2021/6/15 ~ 2024/12/23
Hedge ratio	**1:1**	1:1
Changes in fair value of outstanding hedging instruments since 1 January	**2,796**	(1,552)
Change in value of hedged item used to determine hedge effectiveness	**2,796**	(1,552)
Weighted average hedged rate for the year	**0.77%**	0.88%
Notional amount directly impacted by IBOR reform	**104,708**	100,889

Swaps currently in place covered majority of the floating-rate borrowings and notes payable principal outstanding.

As at 31 December 2021 and 2020, management considered that any reasonable changes in the interest rates would not result in a significant change in the Group's results as the Group's exposure to cash flow interest-rate risk arising from its borrowings and notes payable carried at floating rates after considering the effect of hedging is considered to be insignificant.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The LIBOR benchmark in the aforesaid floating-rate borrowings and notes payable in which the Group continues to have hedging instrument is USD LIBOR. The following table contains details of all the financial instruments that the Group held at 31 December 2021 which reference USD LIBOR and have not yet transitioned to an alternative interest rate benchmark:

	Carrying amount at 31 December 2021		Of which: Have not yet to transitioned to an alternative benchmark interest rate as at 31 December 2021	
	Assets RMB'Million	Liabilities RMB'Million	Assets RMB'Million	Liabilities RMB'Million
Assets and liabilities exposed to USD LIBOR				
Measured at amortised cost				
Borrowings	–	140,552	–	140,552
Notes payable	–	7,970	–	7,970
Measured at fair value				
Other financial assets	1,253	–	1,253	–
Other financial liabilities	–	358	–	358
Total assets and liabilities exposed to USD LIBOR	1,253	148,880	1,253	148,880

Management is closely monitoring the progress of the alternative selection and assessing the potential impacts on a continuous basis. It is expected that the transition will be completed before 30 June 2023, and no significant impact arose during the year ended 31 December 2021.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

The majority of the balances of accounts receivable are due from online advertising customers and agencies, content production related customers, FinTech and cloud customers and third party platform providers. To manage the risk arising from accounts receivable, the Group has policies in place to ensure that revenues of credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit periods granted to these customers are disclosed in Note 30 and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. The Group has a large number of customers and there is no significant concentration of credit risk.

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

(i) Credit risk of cash and deposits

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

(ii) Credit risk of accounts receivable

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Credit risk of accounts receivable (continued)

The expected loss rates are based on the payment profiles of revenue over 12 months before 31 December 2021 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 affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product ("GDP") to be the most relevant factor. Various economic scenarios are considered in generating the forward-looking adjustment, including the recent influences of the coronavirus pandemic situation.

A default on accounts receivable occurs when the counterparty fails to make contractual payments within 90 days when they fall due. To measure the expected credit losses, accounts receivable are grouped on the basis of shared credit risk characteristics, such as industry, with the objective of facilitating an analysis to identify significant increases in credit risk and recognition of loss allowance on a timely basis. Accounts receivable are written off, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan within the Group, and a failure to make contractual payments for a period of greater than 3 years past due.

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

(iii) Credit risk of other receivables

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date (or the earliest date a financial liability may become payable in the absence of a fixed maturity date). The amounts disclosed in the table are the contractual undiscounted cash flows or the carrying amount of the financial assets to be delivered.

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2021					
Non-derivatives:					
Notes payable	4,856	14,268	42,196	152,539	213,859
Long-term payables	–	5,917	4,092	51	10,060
Borrowings	20,937	9,046	131,505	6	161,494
Lease liabilities	5,877	5,192	9,541	3,711	24,321
Other financial liabilities	3,795	2,117	2,848	1,016	9,776
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	140,690	–	–	–	140,690
Dividends payable for distribution in specie	102,451	–	–	–	102,451
Derivatives:					
Other financial liabilities	109	77	172	–	358
	278,715	36,617	190,354	157,323	663,009

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2020					
Non-derivatives:					
Notes payable	3,994	3,994	41,182	119,495	168,665
Long-term payables	–	3,486	6,551	120	10,157
Borrowings	15,609	5,529	110,160	2	131,300
Lease liabilities	3,986	3,294	5,492	2,465	15,237
Other financial liabilities	4,994	2,207	4,279	603	12,083
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	121,903	–	–	–	121,903
Derivatives:					
Other financial liabilities	31	309	1,617	–	1,957
	150,517	18,819	169,281	122,685	461,302

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

Capital refers to equity and external debts (including borrowings and notes payable). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, repurchase the Company's shares or raise/repay debts.

The Group assesses its creditworthiness based on its business and financial risk profile and monitors its capital by regularly reviewing its debts to adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") (Note) ratio, being the measure of the Group's ability to pay off all of its debts which in turn reflects the Group's financial health and liquidity position. The total debts/adjusted EBITDA ratio calculated by dividing the total debts by adjusted EBITDA is as follows:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Borrowings (Note 36)	**155,939**	126,387
Notes payable (Note 37)	**145,590**	122,057
Total debts	**301,529**	248,444
Adjusted EBITDA (Note)	**194,798**	183,314
Total debts/Adjusted EBITDA ratio	**1.55**	1.36

Note:

Adjusted EBITDA represents operating profit less interest income and other gains/(losses), net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, amortisation of intangible assets and land use rights, and equity-settled share-based compensation expenses.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2021 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
As at 31 December 2021				
FVPL	**23,566**	**8,069**	**171,122**	**202,757**
FVOCI	**227,788**	**–**	**22,469**	**250,257**
Assets held for distribution	**102,451**	**–**	**–**	**102,451**
Other financial assets	**–**	**1,709**	**17**	**1,726**
Other financial liabilities	**–**	**358**	**2,444**	**2,802**
Dividends payable for distribution in specie (Note)	**102,451**	**–**	**–**	**102,451**
As at 31 December 2020				
FVPL	27,620	5,646	139,271	172,537
FVOCI	199,465	–	13,626	213,091
Other financial assets	–	1,120	9	1,129
Other financial liabilities	–	1,957	3,352	5,309

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note:

It represented the dividend liability resulting from distribution in specie which was measured at fair value of JD.com Inc. ("JD.com") shares to be distributed (Note 15(b)).

The fair value of financial instruments traded in active markets is determined with reference to quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments mainly include:

- Dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

During the year ended 31 December 2021, there was no transfer between level 1 and 2 for recurring fair value measurements. Transfers in and out of level 3 measurements are set out in the following table, which presents the changes of financial instruments in level 3 for the years ended 31 December 2021 and 2020:

	Financial assets		Financial liabilities	
	2021	2020	**2021**	2020
	RMB'Million	RMB'Million	**RMB'Million**	RMB'Million
Opening balance	**152,906**	123,093	**3,352**	1,873
Additions	**79,756**	56,393	**102**	2,142
Business combinations	**–**	10	**–**	–
Disposals/Settlements	**(11,333)**	(4,902)	**(803)**	(1,246)
Transfers	**(90,778)**	(41,653)	**–**	–
Changes in fair value recognised in other comprehensive income	**17,120**	2,133	**–**	–
Changes in fair value recognised in profit or loss*	**52,076**	25,748	**(46)**	635
Currency translation differences	**(6,139)**	(7,916)	**(161)**	(52)
Closing balance	**193,608**	152,906	**2,444**	3,352
*Includes unrealised gains/(losses) recognised in profit or loss attributable to balances held at the end of the reporting period	**12,053**	11,032	**(113)**	636

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note:

During the years ended 31 December 2021 and 2020, transfers from level 3 to level 1 were mainly due to the successful Initial Public Offerings ("IPOs") of existing investees.

Valuation processes inputs and relationships to fair value (Level 3)

The Group has a team of personnel who performs valuation on these level 3 instruments for financial reporting purposes. The team performs valuation, or necessary updates, at least once every quarter, which coincides with the Group's quarterly reporting dates. On an annual basis, the team adopts various valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts may also be involved and consulted when it is necessary.

The components of the level 3 instruments mainly include investments in unlisted companies classified as FVPL or FVOCI, other financial assets, and other financial liabilities. Other financial liabilities mainly include contingent consideration payable related to certain business combinations. As these investments and instruments are not traded in an active market, the majority of their fair values have been determined using applicable valuation techniques including comparable companies approach, comparable transactions approach and other option pricing approach. These valuation approaches require significant judgments, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund-raising transactions undertaken by the investees) and other exposure, etc.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of investments in unlisted companies.

Description	Fair value as at 31 December		Significant unobservable inputs	Range of inputs as at 31 December		Relationship of unobservable inputs to fair value
	2021	2020		**2021**	2020	
	RMB'Million	RMB'Million				
Investments in unlisted companies in FVPL and FVOCI	**185,774**	147,132	Expected volatility	**29%~70%**	27% ~ 63%	Depends on rights and restrictions of shares held by the Group
			Risk-free rate	**-0.58%~5.39%**	0.15%~5.35%	

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note: (continued)

For contingent consideration related to a business combination of a subsidiary, which is principally engaged in the television series and film production business, the significant unobservable inputs are growth rate of net profit and expected volatility, which are 10% (31 December 2020: 15%) and 30% (31 December 2020: 35%), respectively. The higher the growth rate, the higher the fair value; and the higher the expected volatility, the lower the fair value.

For the fair value of the Group's investments in unlisted companies, the sensitivity analysis is performed by management, see Note 3.1(a)(ii) for details.

For the fair value of contingent consideration related to business combination, if growth rate of net profit had been 5% higher or lower as at 31 December 2021, the fair value would have increased by approximately RMB36 million (2020: RMB73 million) or decreased by approximately RMB45 million (2020: RMB97 million). If the expected volatility had been 5% higher or lower as at 31 December 2021, the fair value would have decreased by approximately RMB37 million (2020: RMB66 million) or increased by approximately RMB41 million (2020: RMB66 million).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) The estimates of the lifespans of virtual items provided on the Group's online platforms

As mentioned in Note 2.28(a), the end users purchase certain virtual items provided on the Group's online platforms and the relevant revenue is recognised based on the estimated lifespans of the virtual items. The estimated lifespans of different virtual items are determined by the management based on either the expected users' relationship periods or the stipulated period of validity of the relevant virtual items depending on the respective terms of virtual items.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(a) The estimates of the lifespans of virtual items provided on the Group's online platforms (continued)

Significant judgments are required in determining the expected users' relationship periods, including but not limited to historical users' consumption patterns, churn out rate and reactivity on marketing activities, games life-cycle, and the Group's marketing strategy. The Group has adopted a policy of assessing the estimated lifespans of virtual items on a regular basis whenever there is any indication of change in the expected users' relationship periods.

The Group will continue to monitor the average lifespans of the virtual items. The results may differ from the historical period, and any change in the estimates may result in the revenue being recognised on a different basis from that in prior periods.

(b) Recoverability of non-financial assets

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(c) Fair value measurement of FVPL, FVOCI and other financial liabilities

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

(d) Share-based compensation arrangements

As mentioned in Note 2.26(e), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the Binomial Model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant estimates and judgment on key parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors based on historical experience and other relevant factors in applying the Binomial Model (Note 35). Changes in these estimates and judgments could materially affect the fair value of these options granted.

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD2,994 million (equivalent to approximately RMB2,513 million) in 2021 (2020: approximately HKD1,073 million (equivalent to approximately RMB976 million)).

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. Where the final retention rate is different from the initial estimate, such difference will impact the share-based compensation expenses in subsequent periods. As at 31 December 2021, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be not lower than 89% (31 December 2020: not lower than 91%).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(e) Income taxes

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

(f) Scope of consolidation

Consolidation is required only if control exists. The Group controls an investee when it has all the following: (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. Power results from rights that can be straightforward through voting rights or complicated in contractual arrangements. Variable returns normally encompass financial benefits and risks, but in certain cases, they also include operational values specific to the Group. These three factors cannot be considered in isolation by the Group in its assessment of control over an investee. Where the factors of control are not apparent, significant judgement is applied in the assessment, which is based on an overall analysis of all of the relevant facts and circumstances.

The Group is required to reassess whether it controls the investee if facts and circumstances indicate a change to one or more of the three factors of control.

5 SEGMENT INFORMATION AND REVENUES

(a) Description of segments and principal activities

The chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports.

The Group has the following reportable segments for the years ended 31 December 2021 and 2020:

– VAS;

– Online Advertising;

– FinTech and Business Services; and

– Others.

The "Others" business segment consists of the financials of investment in, production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance costs, net, share of profit/(loss) of associates and joint ventures, net and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended 31 December 2021 and 2020. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in these consolidated financial statements. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2021 and 2020 is as follows:

	Year ended 31 December 2021				
	VAS RMB'Million	Online Advertising RMB'Million	FinTech and Business Services RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	**291,572**	**88,666**	**172,195**	**7,685**	**560,118**
Gross profit	**152,936**	**40,594**	**51,396**	**1,018**	**245,944**
Cost of revenues					
Depreciation	**5,797**	**5,322**	**10,268**	**106**	**21,493**
Amortisation	**18,740**	**7,810**	**72**	**1,973**	**28,595**

	Year ended 31 December 2020				
	VAS RMB'Million	Online Advertising RMB'Million	FinTech and Business Services RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	264,212	82,271	128,086	7,495	482,064
Gross profit	142,925	42,260	36,251	96	221,532
Cost of revenues					
Depreciation	5,006	3,331	9,170	87	17,594
Amortisation	17,771	6,628	30	2,329	26,758

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the Mainland of China. During the years ended 31 December 2021 and 2020, breakdown of the total revenues by geographical location is as follows:

	2021	2020
	RMB'Million	RMB'Million
Revenues		
– The Mainland of China	**513,688**	448,165
– Others	**46,430**	33,899
	560,118	482,064

The Group also conducts operations in the North America, Europe and other regions, and holds investments (including investments in associates, investments in joint ventures, FVPL, FVOCI and assets held for distribution) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Operating assets		
– The Mainland of China	**490,415**	400,062
– Others	**243,296**	242,477
Investments		
– The Mainland of China and Hong Kong	**539,900**	415,685
– North America	**148,455**	141,876
– Asia excluding the Mainland of China and Hong Kong	**103,386**	61,894
– Europe	**63,117**	57,750
– Others	**23,795**	13,681
	1,612,364	1,333,425

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

As at 31 December 2021, the total non-current assets other than financial instruments and deferred income tax assets located in the Mainland of China and other regions amounted to RMB446,565 million (31 December 2020: RMB400,877 million) and RMB182,612 million (31 December 2020: RMB177,427 million), respectively.

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the years ended 31 December 2021 and 2020.

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue of the Group from contracts with customers is disaggregated by revenue source. The table also includes a reconciliation to the segment information (Note 5(a)).

	2021 **RMB'Million**	2020 RMB'Million
Revenue from contracts with customers		
– VAS	**291,572**	264,212
Games	**174,314**	156,101
Social networks	**117,258**	108,111
– Online Advertising	**88,666**	82,271
Social and others advertising	**75,349**	67,979
Media advertising	**13,317**	14,292
– FinTech and Business Services	**172,195**	128,086
– Others	**7,685**	7,495
	560,118	482,064

5 SEGMENT INFORMATION AND REVENUES (continued)

(c) Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers under "Deferred revenue":

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Contract liabilities:		
VAS	**62,261**	60,612
Online Advertising	**2,588**	4,797
FinTech and Business Services	**6,601**	6,952
Others	**108**	181
	71,558	72,542

Note:

(i) Contract liabilities

Contract liabilities mainly comprised virtual items, unamortised pre-paid tokens or cards, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the relevant inception dates, and customer loyalty incentives offered to the customers.

5 SEGMENT INFORMATION AND REVENUES (continued)

(c) Assets and liabilities related to contracts with customers (continued)

Note: (continued)

(ii) Revenue recognised in relation to contract liabilities

The following table shows the extent of the revenue recognised in the current reporting period which relates to carried-forward contract liabilities:

	2021	2020
	RMB'Million	RMB'Million
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
VAS	**56,562**	43,030
Online Advertising	**2,665**	3,034
FinTech and Business Services	**5,636**	1,783
Others	**181**	137
	65,044	47,984

As at 31 December 2021 and 2020, total capitalised contract costs to obtain or fulfill contracts with customers were immaterial.

6 INTEREST INCOME

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

7 OTHER GAINS, NET

	2021 RMB'Million	2020 RMB'Million
Net gains on disposals and deemed disposals of investee companies (Note (a))	**118,051**	24,390
Net fair value gains on FVPL (Note (b))	**47,560**	37,257
Impairment provision for investee companies, goodwill and other intangible assets arising from acquisitions (Note (c))	**(25,028)**	(11,422)
Subsidies and tax rebates	**8,888**	7,922
Net fair value gains on other financial instruments	**157**	1,652
Donations (Note (d))	**(2,050)**	(2,600)
Dividend income	**660**	1,765
Others	**1,229**	(1,833)
	149,467	57,131

Note:

(a) The disposal and deemed disposal gains of approximately RMB118,051 million recognised during the year ended 31 December 2021 comprised the following:

– net gains of approximately RMB18,646 million (2020: RMB15,492 million) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 21). These investee companies are principally engaged in games development, finance, online video-sharing platform, eCommerce and Internet-related businesses; and

– aggregated net gains of approximately RMB99,405 million (2020: RMB8,898 million) on disposals, partial disposals or other deemed disposals of various investments of the Group, which mainly comprised the following:

(i) step down gain of approximately RMB78.0 billion arising from the investment in JD.com, details of which are explained in Note 21(b)(i);

(ii) step down gain of approximately RMB11.6 billion arising from the transfer of an investee company engaged in games development from associate to FVOCI as a result of retirement of board representatives (Note 25(v)); and

(iii) step up gain of approximately RMB3,807 million arising from the completion of privatisation of Sogou Inc. ("Sogou"), an investment transferred from investment in an associate to a subsidiary (Note 42(a)).

(b) During the year ended 31 December 2021, the net fair value gains on FVPL comprised net gains of approximately RMB47,424 million (2020: RMB37,257 million) as a result of increase in valuations of certain investee companies, and approximately RMB136 million associated with treasury investments (2020: nil).

7 OTHER GAINS, NET (continued)

Note: (continued)

(c) The impairment provision for investee companies, goodwill and other intangible assets arising from acquisitions mainly comprised the following:

	2021	2020
	RMB'Million	RMB'Million
Investments in associates (Note 21)	**15,391**	5,254
Investments in joint ventures and others	**924**	1,388
Goodwill and other intangible assets arising from acquisitions (Note 20)	**8,713**	4,780
	25,028	11,422

(d) The donations mainly include RMB1,600 million of charity funds and RMB450 million for Sustainable Social Value and Common Prosperity Programme ("SSV & CPP").

8 EXPENSES BY NATURE

	2021	2020
	RMB'Million	RMB'Million
Transaction costs (Note (a))	**129,136**	107,628
Employee benefits expenses (Note (b) and Note 13)	**95,523**	69,638
Content costs (excluding amortisation of intangible assets)	**66,911**	58,285
Amortisation of intangible assets (Note (c) and Note 20)	**31,430**	29,073
Promotion and advertising expenses	**31,335**	26,596
Bandwidth and server custody fees (excluding depreciation of right-of-use assets)	**27,260**	21,876
Depreciation of property, plant and equipment, investment properties and right-of-use assets (Note 16 and Note 18)	**26,166**	21,458
Auditor's remuneration		
– Audit and audit-related services	**148**	127
– Non-audit services	**54**	37
– Tax advisory	***14***	*11*
– Due diligence service	***23***	*8*
– Other services	***17***	*18*

8 EXPENSES BY NATURE (continued)

Note:

(a) Transaction costs primarily consist of bank handling fees, channel and distribution costs.

(b) During the year ended 31 December 2021, the Group incurred expenses for the purpose of research and development of approximately RMB51,880 million (2020: RMB38,972 million), which comprised employee benefits expenses of approximately RMB42,958 million (2020: RMB31,643 million).

During the year ended 31 December 2021, employee benefits expenses included the share-based compensation expenses of approximately RMB22,222 million (2020: RMB13,745 million), which contained those incurred for SSV & CPP of approximately RMB21 million (2020: nil).

No significant development expenses had been capitalised for the years ended 31 December 2021 and 2020.

(c) Amortisation charges of intangible assets are mainly in respect of media content including video and music content, game licenses, and other content. During the year ended 31 December 2021, amortisation of media content was approximately RMB28,393 million (2020: RMB26,620 million).

During the year ended 31 December 2021, amortisation of intangible assets included the amortisation of intangible assets resulting from business combinations of approximately RMB4,651 million (2020: RMB3,299 million).

(d) During the year ended 31 December 2021, expenses incurred for SSV & CPP (excluding share-based compensation expenses) were approximately RMB224 million (2020: nil).

(e) During the year ended 31 December 2021, expenses incurred for regulatory fines in the Mainland of China and certain litigation settlements were approximately RMB976 million (2020: nil), of which approximately RMB630 million (2020: nil) were included in “Other gains, net”.

9 FINANCE COSTS, NET

	2021 RMB'Million	2020 RMB'Million
Interest and related expenses	7,918	7,449
Exchange (gains)/losses, net	(804)	438
	7,114	7,887

Interest and related expenses mainly arose from borrowings, notes payable and lease liabilities disclosed in Notes 36, 37 and 18, respectively.

10 SHARE OF (LOSS)/PROFIT OF ASSOCIATES AND JOINT VENTURES, NET

	2021 RMB'Million	2020 RMB'Million
Share of (loss)/profit of associates (Note 21)	(16,592)	3,748
Share of profit/(loss) of joint ventures (Note 22)	148	(76)
	(16,444)	3,672

11 TAXATION

(a) Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2021 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 2021 and 2020.

11 TAXATION (continued)

(a) Income tax expense (continued)

(iii) PRC CIT

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the Mainland of China for the years ended 31 December 2021 and 2020. The general PRC CIT rate is 25% in 2021 and 2020.

Certain subsidiaries of the Group in the Mainland of China were approved as High and New Technology Enterprise and they were subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2021 and 2020. Moreover, according to the announcement and circular issued by relevant government authorities, a subsidiary was qualified as national key software enterprise and subject to a preferential corporate income tax rate of 10%.

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

(iv) Corporate income tax in other jurisdictions

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

(v) Withholding tax

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

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

11 TAXATION (continued)

(a) Income tax expense (continued)

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

	2021 RMB'Million	2020 RMB'Million
Current income tax	**26,039**	19,499
Deferred income tax (Note 28)	**(5,787)**	398
	20,252	19,897

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year (2020: 25%), being the general tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2021 RMB'Million	2020 RMB'Million
Profit before income tax	**248,062**	180,022
Share of loss/(profit) of associates and joint ventures, net	**16,444**	(3,672)
	264,506	176,350
Tax calculated at a tax rate of 25%	**66,126**	44,087
Effects of different tax rates applicable to different subsidiaries of the Group	**(49,202)**	(29,779)
Effects of tax holiday and preferential tax benefits on assessable profits of subsidiaries incorporated in the Mainland of China	**(4,945)**	(3,466)
Income not subject to tax	**(63)**	(65)
Expenses not deductible for tax purposes	**1,539**	1,555
Withholding tax on earnings expected to be remitted by subsidiaries (Note 28)	**1,050**	3,900
Unrecognised deferred income tax assets	**5,462**	3,658
Others	**285**	7
Income tax expense	**20,252**	19,897

11 TAXATION (continued)

(b) Value-added tax and other taxes

The operations of the Group are also mainly subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	6~13%	Sales value of goods sold and services fee income, offset by VAT on purchases
Cultural construction fee	3% (Note i)	Taxable advertising income
City construction tax	7%	Net VAT payable amount
Educational surcharge	5%	Net VAT payable amount

Note:

(i) Effective from 1 July 2019 and until 31 December 2024, the rate of cultural construction fee has been reduced by 50% in certain regions, while during the period from 1 January 2020 to 31 December 2021, this fee is exempted.

12 EARNINGS PER SHARE

(a) Basic

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

	2021	2020
Profit attributable to equity holders of the Company (RMB'Million)	**224,822**	159,847
Weighted average number of ordinary shares in issue (million shares)	**9,528**	9,490
Basic EPS (RMB per share)	**23.597**	16.844

12 EARNINGS PER SHARE (continued)

(b) Diluted

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

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

	2021	2020
Profit attributable to equity holders of the Company (RMB'Million)	**224,822**	159,847
Dilution effect arising from share-based awards issued by non wholly-owned subsidiaries and associates (RMB'Million)	**(217)**	(403)
Profit attributable to equity holders of the Company for the calculation of diluted EPS (RMB'Million)	**224,605**	159,444
Weighted average number of ordinary shares in issue (million shares)	**9,528**	9,490
Adjustments for share options and awarded shares (million shares)	**168**	160
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	**9,696**	9,650
Diluted EPS (RMB per share)	**23.164**	16.523

13 EMPLOYEE BENEFITS EXPENSES

	2021	2020
	RMB'Million	RMB'Million
Wages, salaries and bonuses	**61,058**	48,192
Contributions to pension plans (Note)	**5,630**	2,911
Share-based compensation expenses	**22,222**	13,745
Welfare, medical and other expenses (Note)	**6,470**	4,679
Training expenses	**143**	111
	95,523	69,638

Note:

The majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended 31 December 2021 and 2020 are listed below:

	Percentage
Pension insurance	12.0 ~ 20.0%
Medical insurance	5.0 ~ 10.0%
Unemployment insurance	0.25 ~ 1.5%
Housing fund	10.0 ~ 12.0%

The Group has announced policies which become effective on 1 January 2022, that, additional employee benefits will be provided by the Group to certain employees, including (i) commercial health insurance benefits to certain eligible employees who have completed a required period of service; and (ii) one-off retirement cash bonus upon the retirement of the qualified employees. The financial impacts relating to these employee benefits for the year ended 31 December 2021 were immaterial.

13 EMPLOYEE BENEFITS EXPENSES (continued)

(a) Senior management's emoluments

Senior management includes directors, chief executive officer ("CEO"), president and other senior executives. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the CEO, whose details have been reflected in Note 14(a), is as follows:

	2021 RMB'000	2020 RMB'000
Salaries, bonuses, allowances and benefits in kind	**464,262**	466,665
Contributions to pension plans	**729**	713
Share-based compensation expenses	**4,591,385**	2,696,137
	5,056,376	3,163,515

The emoluments of the senior management fell within the following bands:

	Number of individuals 2021	2020
Emolument bands		
HKD8,000,000 ~ HKD50,000,000	**1**	2
HKD50,000,001 ~ HKD200,000,000	**3**	6
HKD200,000,001 ~ HKD400,000,000	**3**	3
HKD400,000,001 ~ HKD800,000,000	**3**	–
HKD800,000,001 ~ HKD1,200,000,000	**–**	2
HKD1,200,000,001 ~ HKD2,000,000,000	**2**	–

13 EMPLOYEE BENEFITS EXPENSES (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group did not include any director during the year 2021 (2020: included one director). All of these individuals have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2021 and 2020. The emoluments paid/payable to the five (2020: remaining four) individuals during the years were as follows:

	2021 RMB'000	2020 RMB'000
Salaries	**35,290**	30,241
Bonuses	**1,063,362**	523,349
Contributions to pension plans	**10,455**	3,846
Share-based compensation expenses	**2,884,398**	1,957,518
Allowances and benefits in kind	**163**	156
	3,993,668	2,515,110

The emoluments of the above five individuals (2020: four) fell within the following bands:

	Number of individuals	
	2021	2020
Emolument bands		
HKD352,500,001 ~ HKD353,000,000	**–**	1
HKD357,500,001 ~ HKD358,000,000	**–**	1
HKD553,000,001 ~ HKD553,500,000	**2**	–
HKD590,000,001 ~ HKD590,500,000	**1**	–
HKD1,121,500,001 ~ HKD1,122,000,000	**–**	1
HKD1,155,500,001 ~ HKD1,156,000,000	**–**	1
HKD1,588,500,001 ~ HKD1,589,000,000	**1**	–
HKD1,599,000,001 ~ HKD1,599,500,000	**1**	–

14 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and the chief executive's emoluments

The remuneration of every director and the CEO is set out below:

During the year ended 31 December 2021:

Name of director	Fees RMB'000	Salaries RMB'000	Bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	1,148	7,331	35,522	110	–	24	44,135
Lau Chi Ping Martin	1,148	6,949	22,997	–	291,775	99	322,968
Iain Ferguson Bruce	462	–	–	–	1,474	–	1,936
Ian Charles Stone	981	–	–	–	5,815	–	6,796
Li Dong Sheng	736	–	–	–	2,908	–	3,644
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–	–
Yang Siu Shun	981	–	–	–	5,056	–	6,037
Ke Yang	736	–	–	–	2,298	–	3,034
	6,192	14,280	58,519	110	309,326	123	388,550

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and the chief executive's emoluments (continued)

During the year ended 31 December 2020:

Name of director	Fees RMB'000	Salaries RMB'000	Bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	1,174	6,706	50,746	88	–	24	58,738
Lau Chi Ping Martin	1,174	6,499	33,616	–	386,340	85	427,714
Iain Ferguson Bruce	1,010	–	–	–	3,630	–	4,640
Ian Charles Stone	1,010	–	–	–	4,636	–	5,646
Li Dong Sheng	758	–	–	–	2,318	–	3,076
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–	–
Yang Siu Shun	926	–	–	–	3,919	–	4,845
Ke Yang	757	–	–	–	1,444	–	2,201
	6,809	13,205	84,362	88	402,287	109	506,860

Note:

(i) Allowances and benefits in kind include leave pay, insurance premium and club membership.

(ii) During the year ended 31 December 2021, 3,374,630 options (2020: 4,399,815 options) were granted to one executive director of the Company, out of which 843,657 options were voluntarily waived in February 2022, and 40,500 awarded shares were granted to four independent non-executive directors of the Company (2020: 59,500 awarded shares were granted to five independent non-executive directors of the Company).

(iii) No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2021 and 2020.

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(c) Consideration provided to third parties for making available directors' services

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the year or at any time during the year.

(d) Information about loans, quasi-loans and other dealings in favour of directors, their controlled bodies and connected entities

No loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15 DIVIDENDS

(a) Final dividends

The final dividends amounting to HKD15,238 million (2020: HKD11,378 million) were paid during the year ended 31 December 2021.

A final dividend in respect of the year ended 31 December 2021 of HKD1.60 per share (2020: HKD1.60 per share) was proposed pursuant to a resolution passed by the Board on 23 March 2022 and subject to the approval of the shareholders at the 2022 annual general meeting of the Company to be held on 18 May 2022 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

15 DIVIDENDS (continued)

(b) Interim dividend by way of distribution in specie

As announced on 23 December 2021 (the "Declaration Date"), the Company resolved to declare a special interim dividend in the form of a distribution in specie of approximately 457 million Class A ordinary shares of JD.com ("JD.com Shares") to the shareholders whose names appeared on the register of members of the Company on 25 January 2022 in proportion to their then respective shareholdings in the Company on the basis of 1 Class A ordinary share of JD.com for every 21 shares held by the shareholders, being rounded down to the nearest whole number of Class A ordinary shares of JD.com and fractional entitlements to the JD.com Shares will be distributed in the form of cash-in-lieu payment, except that the net proceeds of less than HKD100 will not be distributed. Accordingly, approximately 457 million Class A ordinary shares of JD.com are expected to be distributed ("JD.com Shares to be distributed"), representing approximately 14.7% of the total number of issued shares of JD.com as at the Declaration Date.

These JD.com Shares to be distributed (Note 21(b)) are classified and presented as "Assets held for distribution" upon the Declaration Date (Note 32).

Dividends payable for distribution in specie of approximately RMB97.1 billion was recognised on the Declaration Date and measured at fair value using the market price of the JD.com Shares to be distributed. Subsequent changes in the fair value of the said dividends payable as a result of the changes in the fair value of the JD.com Shares to be distributed was recognised in equity as an adjustment to the amount of the dividend distribution until its settlement. Fair value changes on the dividends payable amounting to approximately RMB5.4 billion were recognised in equity since the Declaration Date up to 31 December 2021. As at 31 December 2021, the amount of dividends payable for distribution in specie was approximately RMB102.5 billion.

The share certificates for the JD.com Shares to be distributed are dispatched to the qualifying shareholders in March 2022.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'Million	Computer and other operating equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2021						
Cost	14,740	86,946	2,196	113	3,165	107,160
Accumulated depreciation and impairment	(3,511)	(40,653)	(1,218)	(42)	(1,854)	(47,278)
Currency translation differences	(1)	(91)	10	(1)	44	(39)
Net book amount	11,228	46,202	988	70	1,355	59,843
Year ended 31 December 2021						
Opening net book amount	11,228	46,202	988	70	1,355	59,843
Business combinations	–	242	25	1	51	319
Additions	3,074	20,946	387	37	705	25,149
Disposals	(53)	(1,508)	(5)	(5)	(10)	(1,581)
Depreciation	(1,080)	(19,602)	(327)	(28)	(460)	(21,497)
Impairment	–	(2)	–	–	(1)	(3)
Currency translation differences	(57)	(201)	(13)	–	(45)	(316)
Closing net book amount	13,112	46,077	1,055	75	1,595	61,914
At 31 December 2021						
Cost	17,767	102,278	2,545	137	3,860	126,587
Accumulated depreciation and impairment	(4,597)	(55,909)	(1,487)	(61)	(2,264)	(64,318)
Currency translation differences	(58)	(292)	(3)	(1)	(1)	(355)
Net book amount	13,112	46,077	1,055	75	1,595	61,914

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'Million	Computer and other operating equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2020						
Cost	12,805	62,094	1,788	56	2,930	79,673
Accumulated depreciation and impairment	(2,566)	(27,988)	(973)	(32)	(1,508)	(33,067)
Currency translation differences	(1)	108	14	–	97	218
Net book amount	10,238	34,214	829	24	1,519	46,824
Year ended 31 December 2020						
Opening net book amount	10,238	34,214	829	24	1,519	46,824
Business combinations	9	133	18	31	59	250
Additions	1,952	28,186	421	28	221	30,808
Disposals	(1)	(109)	(6)	(1)	(7)	(124)
Depreciation	(970)	(16,023)	(270)	(11)	(384)	(17,658)
Currency translation differences	–	(199)	(4)	(1)	(53)	(257)
Closing net book amount	11,228	46,202	988	70	1,355	59,843
At 31 December 2020						
Cost	14,740	86,946	2,196	113	3,165	107,160
Accumulated depreciation and impairment	(3,511)	(40,653)	(1,218)	(42)	(1,854)	(47,278)
Currency translation differences	(1)	(91)	10	(1)	44	(39)
Net book amount	11,228	46,202	988	70	1,355	59,843

During the year ended 31 December 2021, depreciation of RMB19,098 million (2020: RMB15,654 million), RMB257 million (2020: RMB256 million) and RMB2,142 million (2020: RMB1,748 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

17 LAND USE RIGHTS

	2021 RMB'Million	2020 RMB'Million
Opening net book amount	**16,091**	15,609
Business combinations	**–**	155
Additions	**2,120**	793
Amortisation	**(484)**	(465)
Impairment reversal	**6**	–
Currency translation differences	**(5)**	(1)
Closing net book amount	**17,728**	16,091

The land use rights mainly represented prepaid operating lease payments in respect of land in the Mainland of China with remaining lease periods of 27 to 49 years.

18 LEASES (EXCLUDING LAND USE RIGHTS)

(a) Amounts recognised in the consolidated statement of financial position

Movement of right-of-use assets (excluding land use rights, disclosed in Note 17) is analysed as follows:

	2021 RMB'Million	2020 RMB'Million
Opening net book amount	**12,929**	10,847
Business combinations	**180**	320
Additions	**12,365**	5,991
Depreciation	**(4,649)**	(3,773)
Reduction (Note)	**(177)**	(169)
Impairment	**(7)**	–
Currency translation differences	**(173)**	(287)
Closing net book amount	**20,468**	12,929

Note:

The reduction of right-of-use assets for the years ended 31 December 2021 and 2020 mainly arose from the early termination and modification of lease contracts.

18 LEASES (EXCLUDING LAND USE RIGHTS) (continued)

(b) Amounts recognised in consolidated income statement

The consolidated income statement included the following amounts relating to leases (excluding the amortisation of land use rights, disclosed in Note 17):

	2021	2020
	RMB'Million	RMB'Million
Depreciation charge of right-of-use assets		
Buildings	**2,203**	1,782
Computer and other operating equipment	**2,422**	1,972
Others	**24**	19
	4,649	3,773
Interest expense (included in finance costs, net)	**719**	559
Expense relating to short-term leases not included in lease liabilities (included in cost of revenues and expenses)	**1,721**	1,475
Expense relating to variable lease payments not included in lease liabilities (included in cost of revenues and expenses)	**4,947**	3,983

Some leases of computer and other operating equipment contain variable lease payments. Variable payments are used for a variety of reasons, including managing cash outflows and minimising the fixed costs. Variable lease payments that depend on usage of bandwidth are recognised in profit or loss in the period in which the conditions that trigger those payments occur. Variable lease payments relating to computer and other operating equipment leases during the year ended 31 December 2021 were considered to be insignificant.

The total cash outflow in financing activities for leases during the year ended 31 December 2021 was approximately RMB5,086 million (2020: RMB4,068 million), including principal elements of lease payments of approximately RMB4,423 million (2020: RMB3,537 million) and related interest paid of approximately RMB663 million (2020: RMB531 million), respectively.

19 CONSTRUCTION IN PROGRESS

	2021 RMB'Million	2020 RMB'Million
Opening net book amount	**4,939**	3,935
Additions	**4,173**	3,408
Transfer to property, plant and equipment	**(3,180)**	(2,415)
Business combinations	**1**	–
Currency translation differences	**(10)**	11
Closing net book amount	**5,923**	4,939

As at 31 December 2021, construction in progress mainly comprised office buildings and data centers under construction located in the PRC.

20 INTANGIBLE ASSETS

	Goodwill RMB'Million	Computer software and technology RMB'Million	Media contents RMB'Million	Trademarks RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2021						
Cost	112,090	6,879	107,271	12,015	5,965	244,220
Accumulated amortisation and impairment	(5,573)	(3,251)	(73,366)	(2,183)	(2,891)	(87,264)
Currency translation differences	2,106	(1)	257	168	(49)	2,481
Net book amount	108,623	3,627	34,162	10,000	3,025	159,437
Year ended 31 December 2021						
Opening net book amount	108,623	3,627	34,162	10,000	3,025	159,437
Business combinations (Note 42)	19,259	4,920	1,595	954	3,402	30,130
Additions	–	780	30,759	7	52	31,598
Disposals	(2)	(2)	(1,120)	–	(3)	(1,127)
Amortisation	–	(999)	(28,393)	(1,071)	(967)	(31,430)
Impairment (provision)/reversal	(8,702)	(3)	9	(1)	(3)	(8,700)
Currency translation differences	(7,005)	(82)	(723)	(614)	(108)	(8,532)
Closing net book amount	112,173	8,241	36,289	9,275	5,398	171,376
At 31 December 2021						
Cost	131,347	12,679	125,114	12,977	9,354	291,471
Accumulated amortisation and impairment	(14,275)	(4,355)	(88,359)	(3,256)	(3,799)	(114,044)
Currency translation differences	(4,899)	(83)	(466)	(446)	(157)	(6,051)
Net book amount	112,173	8,241	36,289	9,275	5,398	171,376

20 INTANGIBLE ASSETS (continued)

	Goodwill RMB'Million	Computer software and technology RMB'Million	Media contents RMB'Million	Trademarks RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2020						
Cost	94,056	4,553	78,911	8,535	4,049	190,104
Accumulated amortisation and impairment	(1,368)	(2,615)	(55,504)	(785)	(1,906)	(62,178)
Currency translation differences	768	18	133	9	6	934
Net book amount	93,456	1,956	23,540	7,759	2,149	128,860
Year ended 31 December 2020						
Opening net book amount	93,456	1,956	23,540	7,759	2,149	128,860
Business combinations	18,034	1,634	4,563	3,430	821	28,482
Additions	–	815	34,314	1	1,079	36,209
Disposals	–	(36)	(1,667)	–	(13)	(1,716)
Amortisation	–	(631)	(26,620)	(866)	(956)	(29,073)
Impairment provision	(4,205)	(92)	(92)	(483)	–	(4,872)
Currency translation differences	1,338	(19)	124	159	(55)	1,547
Closing net book amount	108,623	3,627	34,162	10,000	3,025	159,437
At 31 December 2020						
Cost	112,090	6,879	107,271	12,015	5,965	244,220
Accumulated amortisation and impairment	(5,573)	(3,251)	(73,366)	(2,183)	(2,891)	(87,264)
Currency translation differences	2,106	(1)	257	168	(49)	2,481
Net book amount	108,623	3,627	34,162	10,000	3,025	159,437

20 INTANGIBLE ASSETS (continued)

During the year ended 31 December 2021, amortisation of RMB28,595 million (2020: RMB26,758 million) and RMB2,835 million (2020: RMB2,315 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2021, impairment losses of RMB8,713 million (2020: RMB4,780 million) on goodwill and other intangible assets arising from acquisitions were charged to the consolidated income statement under "Other gains/(losses), net", and RMB13 million were reversed from (2020: RMB92 million were charged to) "Cost of revenues".

Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB101,345 million (31 December 2020: RMB104,688 million), Online Advertising segment with RMB6,478 million (31 December 2020: nil), FinTech and Business Services segment with RMB1,433 million (31 December 2020: RMB1,018 million) and Others segment with RMB2,917 million (31 December 2020: RMB2,917 million).

The Group carries out its impairment testing on goodwill by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts. For the purpose of goodwill impairment review, the recoverable amount of a CGU (or groups of CGUs) is the higher of its fair value less costs of disposal and its value in use.

The key assumptions used for the calculation of the recoverable amounts of the CGUs (or groups of CGUs) under impairment testing were as follows:

For goodwill attributable to the Group's online game business within VAS segment, fair value less costs of disposal was primarily determined based on ratios of EV (enterprise value) divided by EBITDA of several comparable public companies (range: 15-22x) (2020: range: 20-27x) multiplied by the EBITDA of the related CGU (or group of CGUs) and discounted for lack of marketability at a range of 10% to 20% (2020: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks etc.

20 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

For goodwill attributable to the Group's online music business and online literature business within VAS segment, FinTech and Business Services segment and television series and film production within Others segment, value in use using discounted cash flows was calculated, generally, based on five-year financial projections plus a terminal value related to cash flows beyond the projection period extrapolated at an estimated terminal growth rate of generally not more than 5% (2020: not more than 5%). Pre-tax discount rates ranging from 14% to 22% (2020: 13% to 23%) were applied, which reflected assessment of time value and specific risks relating to the industries that the Group operates in. Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. Key parameters applied in the financial projections for impairment review purpose also included revenue growth rates, on a compound annual basis, of not more than 25% (2020: not more than 22%).

Management has not identified any reasonably possible change in key assumptions that could cause carrying amounts of the above CGUs (or groups of CGUs) to exceed the recoverable amounts.

In light of the economic, operating environment and market uncertainties at the financial year end, the carrying amounts of the CGUs related to interactive live video business within VAS segment and Online Advertising segment have been reduced to their respective recoverable amounts through recognition of impairment loss against goodwill of RMB4,012 million and RMB4,500 million respectively as a result of the impairment test performed as detailed below.

In the CGUs related to interactive live video business and Online Advertising segment, the recoverable amounts were determined using discounted cash flow calculations which derived from five-year period financial projections with compound annual revenue growth rates of not more than 15% plus a terminal value calculated at a growth rate of not more than 5%. Pre-tax discount rate of 15% was applied in the discounted cash flows calculations, which reflected time value of money and the assessment of specific risks of the respective industries.

The remaining goodwill allocated to the CGUs (or groups of CGUs) after impairment related to Online Advertising segment and interactive live video business was not material to the Group's consolidated financial statements and therefore no sensitivity analysis was presented.

21 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	**200,785**	171,048
– Unlisted entities	**115,789**	126,561
	316,574	297,609

	2021	2020
	RMB'Million	RMB'Million
At beginning of the year	**297,609**	213,614
Additions (Note (a))	**51,288**	37,651
Transfers (Note (b))	**(19,731)**	33,585
Dilution gains on deemed disposal (Note 7(a))	**18,646**	15,492
Share of (loss)/profit of associates (Note 10)	**(16,592)**	3,748
Share of other comprehensive income of associates	**508**	363
Share of other changes in net assets of associates	**8,430**	3,310
Dividends	**(1,407)**	(344)
Disposals	**(3,238)**	(2,227)
Impairment provision, net (Note (c))	**(15,391)**	(5,254)
Currency translation differences	**(3,548)**	(2,329)
At end of the year	**316,574**	297,609

21 INVESTMENTS IN ASSOCIATES (continued)

Note:

(a) During the year ended 31 December 2021, the Group's additions to investments in associates mainly comprised the following:

(i) a consortium (the "UMG Consortium") formed together with Tencent Music Entertainment Group ("TME"), a non wholly-owned subsidiary of the Company, and certain global financial investors to acquire additional 10% equity interests in Universal Music Group ("UMG") from its parent company, Vivendi S.A.. The Group's additional investment in the UMG Consortium amounted to approximately EUR975 million (equivalent to approximately RMB7,792 million), and the investment remained as an associate;

(ii) the Group acquired additional ordinary shares of an existing investee, which is engaged in eCommerce at a cash consideration of approximately RMB3,554 million. Upon completion of the additional investment, the Group's equity interests in the investee have been increased from 5.23% to 6.26%. Since there is no change in the assessment of significant influence, this investment continues to be considered as an associate of the Group;

(iii) the Group acquired 27% shares of a new investee engaged in games development at a cash consideration of approximately USD540 million (equivalent to approximately RMB3,474 million);

(iv) the Group acquired additional ordinary shares of an existing investee, which is engaged in games development at a cash consideration of approximately RMB2,795 million. Upon completion of the additional investment, the Group's equity interests in the investee have been increased from 5% to 10%. Since there is no change in the assessment of significant influence, this investment continues to be considered as an associate of the Group; and

(v) new associates and additional investments in existing associates with an aggregate amount of approximately RMB33,673 million during the year ended 31 December 2021, which are principally engaged in games development, eCommerce platform and other Internet-related businesses.

(b) During the year ended 31 December 2021, transfers mainly comprised the following:

(i) the entire investment in JD.com of the Group with a carrying value of approximately RMB39.0 billion was transferred from investment in an associate to financial instruments as a result of resignation of board representative and the Group irrevocably designated it as FVOCI (Note 25(iv)) with step down gain of approximately RMB78.0 billion recognised in "Other gains, net" (Note 7(a));

(ii) investment in an existing associate engaged in games development of approximately RMB6.6 billion transferred to FVOCI (Note 25(v)) as a result of retirement of board representative; and

(iii) investments in associates of approximately RMB33,982 million transferred from FVPL mainly due to conversion of the redeemable instruments into ordinary shares upon their IPOs or obtaining board representatives.

21 INVESTMENTS IN ASSOCIATES (continued)

Note: (continued)

(c) Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indications, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use.

In respect of the recoverable amount using value in use, the discounted cash flows calculations were based on cash flow projections estimated by management and the key assumptions adopted in these cash flow projections included revenue growth rates, profit margins and discount rates. In respect of the recoverable amount based on fair value less costs of disposal, the amount was calculated with reference to their respective market prices, or using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

During the year ended 31 December 2021, an aggregate impairment loss of approximately RMB15,391 million (2020: RMB5,254 million) has been recognised for associates with impairment indicators. The majority of these associates' recoverable amounts were determined using fair value less costs of disposal where the fair value is determined according to the principle set out in Note 3.3.

21 INVESTMENTS IN ASSOCIATES (continued)

The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with those of the Group.

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of its stakes in the associates which are listed entities, are shown in aggregate as follows:

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	(Loss)/profit from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive (loss)/income RMB'Million	Fair value of stakes in listed associates as at 31 December RMB'Million
2021							
Listed entities (Note)	**351,357**	**150,572**	**285,557**	**(13,956)**	**157**	**(13,799)**	**634,661**
Non-listed entities	**292,195**	**176,406**	**54,369**	**(2,636)**	**351**	**(2,285)**	
	643,552	**326,978**	**339,926**	**(16,592)**	**508**	**(16,084)**	
2020							
Listed entities	313,183	142,135	202,612	3,867	549	4,416	981,902
Non-listed entities	314,850	188,289	54,044	(119)	(186)	(305)	
	628,033	330,424	256,656	3,748	363	4,111	

Note:

As at 31 December 2021, listed entities of the investments in associates consist of directly and indirectly held listed equity interests.

21 INVESTMENTS IN ASSOCIATES (continued)

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and certain associates with shareholding over 50% (voting power is below 50%), with total carrying amounts of RMB214,927 million and RMB18,675 million as at 31 December 2021, respectively (31 December 2020: RMB212,349 million and RMB15,936 million, respectively). Management determined that it has significant influence thereon through the board representation or other arrangements made, and it has no control or joint control over such investees as the Group has no power to direct relevant activities due to other arrangements made. Consequently, these investments have been classified as associates.

There were no material contingent liabilities relating to the Group's interests in the associates.

22 INVESTMENTS IN JOINT VENTURES

As at 31 December 2021, the Group's investments in joint ventures of RMB6,614 million (31 December 2020: RMB7,649 million) mainly comprised an investee company that is a special purpose vehicle of which the Group has a majority stake therein for the investment in one of the telecommunication carriers in the PRC and other joint venture initiatives in new retail and entertainment-related businesses.

Share of profit amounting to RMB148 million was recognised during the year ended 31 December 2021 (2020: share of loss amounting to RMB76 million) (Note 10).

During the year ended 31 December 2021, the Group made an aggregate impairment provision of RMB904 million (2020: RMB1,388 million) against the carrying amounts of the investments in joint ventures, based on the respective assessed recoverable amounts.

23 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2021, the financial instruments of the Group are analysed as follows:

	As at 31 December	
	2021	2020
Financial assets	**RMB'Million**	RMB'Million
Financial assets at amortised cost:		
Deposits and other receivables (Note 26)	**32,682**	17,527
Term deposits (Note 29)	**103,304**	100,168
Accounts receivable (Note 30)	**49,331**	44,981
Cash and cash equivalents (Note 31(a))	**167,966**	152,798
Restricted cash (Note 31(b))	**2,476**	2,520
Other financial assets (Note 27)	**1,284**	8
Financial assets at fair value:		
FVPL (Note 24)	**202,757**	172,537
FVOCI (Note 25)	**250,257**	213,091
Assets held for distribution (Note 32)	**102,451**	–
Other financial assets (Note 27)	**1,726**	1,129
	914,234	704,759
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings (Note 36)	**155,939**	126,387
Notes payable (Note 37)	**145,590**	122,057
Long-term payables (Note 38)	**9,966**	9,910
Other financial liabilities (Note 39)	**6,664**	9,512
Accounts payable (Note 40)	**109,470**	94,030
Lease liabilities (Note 18)	**21,947**	14,020
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 41)	**31,220**	27,873
Financial liabilities at fair value:		
Other financial liabilities (Note 39)	**2,802**	5,309
Financial liabilities measured according to IFRIC 17:		
Dividends payable for distribution in specie (Note 15(b))	**102,451**	–
	586,049	409,098

23 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Included in non-current assets:		
Investments in listed entities	**19,802**	23,554
Investments in unlisted entities	**163,382**	133,506
Treasury investments and others	**9,000**	8,884
	192,184	165,944
Included in current assets:		
Investments in listed entities	**4**	10
Treasury investments and others	**10,569**	6,583
	10,573	6,593
	202,757	172,537

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Movement of FVPL is analysed as follows:

	2021 RMB'Million	2020 RMB'Million
At beginning of the year	**172,537**	135,936
Additions and transfers (Note (a) and Note 21(b))	**23,240**	21,960
Changes in fair value (Note 7)	**47,560**	37,257
Disposals and others	**(34,282)**	(13,314)
Currency translation differences	**(6,298)**	(9,302)
At end of the year	**202,757**	172,537

Note:

(a) During the year ended 31 December 2021, the Group's additions and transfers mainly comprised the following:

(i) an additional investment in a social network platform of approximately USD531 million (equivalent to approximately RMB3,432 million);

(ii) new investments and additional investments with an aggregate amount of approximately RMB80,946 million in listed and unlisted entities. These companies are principally engaged in express delivery, Internet platform, retail, eCommerce, technology and other Internet-related businesses. None of the above investment was individually significant that triggers any disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time of inception; and

(iii) except as described in Note 21(b), transfers also mainly comprised certain investments with an aggregate amount of approximately RMB27,233 million designated as FVOCI due to the conversion of preferred shares into ordinary shares upon their IPOs.

(b) Management has assessed the level of influence that the Group exercises on certain FVPL with shareholding exceeding 20%. Since these investments are either held in form of redeemable instruments or interests in limited life partnership without significant influence, these investments have been classified as FVPL.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Equity investments in listed entities	**227,788**	199,465
Equity investments in unlisted entities	**22,392**	13,626
Treasury investments	**77**	–
	250,257	213,091

Movement of FVOCI is analysed as follows:

	2021	2020
	RMB'Million	RMB'Million
At beginning of the year	**213,091**	81,721
Additions and transfers (Note)	**93,211**	16,474
Changes in fair value	**(16,834)**	131,655
Disposals	**(33,555)**	(6,957)
Currency translation differences	**(5,656)**	(9,802)
At end of the year	**250,257**	213,091

Note:

During the year ended 31 December 2021, except as described in Note 24(a)(iii), the Group's additions and transfers mainly comprised the following:

(i) an additional investment in an eCommerce entity of approximately JPY72,406 million (equivalent to approximately RMB4,294 million);

(ii) a new investment in a games development entity of approximately RMB2,616 million;

(iii) new investments and additional investments with an aggregate amount of approximately RMB23,473 million. These companies are principally engaged in publishing, Internet platform, technology, property management and other Internet-related businesses;

(iv) transfer from investment in an associate in relation to the Class A ordinary shares of JD.com held by the Group to the extent of approximately RMB15.2 billion (Note 21(b)(i)) (other than those held by the Group for the Distribution in Specie of approximately RMB97.1 billion that were classified as "Assets held for distribution" (Note 32)); and

(v) an existing investee company engaged in games development with carrying value of approximately RMB6.6 billion transferred from investment in an associate to FVOCI due to retirement of board representative, resulting in step down gain of approximately RMB11.6 billion (Note 7(a)(ii)).

26 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media contents and game licences	**18,518**	15,415
Prepayments for capital transactions	**6,717**	889
Loans to investees and investees' shareholders (Note (a))	**4,058**	1,078
Running royalty fees for online games (Note (b))	**445**	667
Others	**7,439**	6,581
	37,177	24,630
Included in current assets:		
Prepayments and prepaid expenses	**18,714**	10,244
Running royalty fees for online games (Note (b))	**15,795**	14,499
Receivables related to financial services	**10,343**	3,700
Interest receivables	**5,604**	2,948
Lease deposits and other deposits	**1,290**	966
Loans to investees and investees' shareholders (Note (a))	**1,154**	258
Refundable value-added tax	**1,151**	865
Dividend and other investment-related receivables	**1,128**	182
Others	**10,211**	6,659
	65,390	40,321
	102,567	64,951

Note:

(a) As at 31 December 2021, the balances of loans to investees and investees' shareholders were mainly repayable within a period of one to five years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 12.0% per annum (31 December 2020: not higher than 12.0% per annum).

(b) Running royalty fees for online games comprised prepaid royalty fees, unamortised running royalty fees and deferred Online Service Fees.

As at 31 December 2021, the carrying amounts of deposits and other assets (excluding prepayments and refundable value-added tax) approximated their fair values. As at 31 December 2021, loss allowances made against the gross amounts of deposits and other assets were not significant.

27 OTHER FINANCIAL ASSETS

As at 31 December 2021, the Group's other financial assets mainly comprised the treasury investments measured at amortised cost amounting to RMB1,284 million (31 December 2020: RMB8 million), and the outstanding interest rate swap contracts measured at fair value amounting to RMB1,253 million (31 December 2020: RMB5 million) to hedge the Group's exposure arising from borrowings and senior notes carried at floating rates.

28 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	**17,878**	13,132
– to be recovered within 12 months	**12,966**	11,873
	30,844	25,005
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(16,619)**	(17,991)
– to be recovered within 12 months	**(1,299)**	(1,727)
	(17,918)	(19,718)

28 DEFERRED INCOME TAXES (continued)

The movements of the deferred income tax assets/liabilities account were as follows:

	Deferred income tax assets RMB'Million	Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2021	**21,348**	**(16,061)**	**5,287**
Business combinations	**116**	**(2,541)**	**(2,425)**
Credited to consolidated income statement (Note 11)	**5,555**	**232**	**5,787**
Withholding taxes paid	**–**	**3,313**	**3,313**
Credited to consolidated statement of changes in equity	**247**	**421**	**668**
Currency translation differences	**(79)**	**375**	**296**
Set-off of deferred income tax assets/liabilities	**(1,119)**	**1,119**	**–**
At 31 December 2021	**26,068**	**(13,142)**	**12,926**

	Deferred income tax assets RMB'Million	Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2020	18,209	(12,841)	5,368
Business combinations	165	(1,985)	(1,820)
Credited/(charged) to consolidated income statement (Note 11)	4,731	(5,129)	(398)
Withholding taxes paid	–	3,477	3,477
Charged to consolidated statement of changes in equity	(24)	(1,106)	(1,130)
Currency translation differences	(245)	35	(210)
Set-off of deferred income tax assets/liabilities	(1,488)	1,488	–
At 31 December 2020	21,348	(16,061)	5,287

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax assets before offsetting were as follows:

	Deferred income tax assets on temporary differences arising from				
	Accelerated amortisation of intangible assets RMB'Million	Tax losses RMB'Million (Note)	Accrued expenses RMB'Million	Share-based payments and others RMB'Million	Total RMB'Million
At 1 January 2021	**7,167**	**297**	**10,458**	**7,083**	**25,005**
Business combinations	**13**	**–**	**84**	**19**	**116**
Credited to consolidated income statement	**1,087**	**1,374**	**1,480**	**1,614**	**5,555**
Credited to consolidated statement of changes in equity	**–**	**–**	**–**	**247**	**247**
Currency translation differences	**–**	**36**	**–**	**(115)**	**(79)**
At 31 December 2021	**8,267**	**1,707**	**12,022**	**8,848**	**30,844**
At 1 January 2020	6,055	684	8,666	4,973	20,378
Business combinations	–	–	–	165	165
Credited/(charged) to consolidated income statement	1,112	(387)	1,792	2,214	4,731
Charged to consolidated statement of changes in equity	–	–	–	(24)	(24)
Currency translation differences	–	–	–	(245)	(245)
At 31 December 2020	7,167	297	10,458	7,083	25,005

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable profits will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2021, the Group did not recognise deferred income tax assets of RMB2,922 million (31 December 2020: RMB2,783 million) in respect of cumulative tax losses amounting to RMB13,412 million (31 December 2020: RMB12,690 million). These tax losses in the Mainland of China will expire from 2022 to 2026.

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax liabilities before offsetting were as follows:

	Deferred income tax liabilities on temporary differences arising from						
	Intangible assets acquired in business combinations RMB'Million	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'Million	Changes in fair value of FVPL and FVOCI RMB'Million	Deemed disposals of investees RMB'Million	Accelerated tax depreciation RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2021	**(4,896)**	**(6,188)**	**(3,561)**	**(928)**	**(3,845)**	**(300)**	**(19,718)**
Business combinations	**(2,541)**	**–**	**–**	**–**	**–**	**–**	**(2,541)**
Credited/(charged) to consolidated income statement	**962**	**(1,050)**	**263**	**(35)**	**190**	**(98)**	**232**
Withholding tax paid	**–**	**3,313**	**–**	**–**	**–**	**–**	**3,313**
Credited to consolidated statement of changes in equity	**–**	**–**	**421**	**–**	**–**	**–**	**421**
Currency translation differences	**50**	**(1)**	**50**	**–**	**–**	**276**	**375**
At 31 December 2021	**(6,425)**	**(3,926)**	**(2,827)**	**(963)**	**(3,655)**	**(122)**	**(17,918)**
At 1 January 2020	(3,627)	(5,781)	(1,743)	(886)	(2,746)	(227)	(15,010)
Business combinations	(1,965)	–	–	–	–	(20)	(1,985)
Credited/(charged) to consolidated income statement	760	(3,900)	(794)	(42)	(1,099)	(54)	(5,129)
Withholding tax paid	–	3,477	–	–	–	–	3,477
Charged to consolidated statement of changes in equity	–	–	(1,106)	–	–	–	(1,106)
Currency translation differences	(64)	16	82	–	–	1	35
At 31 December 2020	(4,896)	(6,188)	(3,561)	(928)	(3,845)	(300)	(19,718)

28 DEFERRED INCOME TAXES (continued)

As at 31 December 2021, the Group recognised the relevant deferred income tax liabilities of RMB3,926 million (31 December 2020: RMB6,188 million) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB96,262 million (31 December 2020: RMB33,832 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

29 TERM DEPOSITS

An analysis of the Group's term deposits by currencies is as follows:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	**19,473**	31,665
Other currencies	**18**	16
	19,491	31,681
Included in current assets:		
RMB term deposits	**55,810**	51,491
USD term deposits	**24,039**	14,083
Other currencies	**3,964**	2,913
	83,813	68,487
	103,304	100,168

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2021, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.

30 ACCOUNTS RECEIVABLE

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Accounts receivable from contracts with customers	**53,460**	48,873
Loss allowance	**(4,129)**	(3,892)
	49,331	44,981

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

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
0 ~ 30 days	**21,639**	19,708
31 ~ 60 days	**13,255**	10,867
61 ~ 90 days	**6,105**	4,506
Over 90 days	**8,332**	9,900
	49,331	44,981

The majority of the Group's accounts receivable were denominated in RMB.

30 ACCOUNTS RECEIVABLE (continued)

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
FinTech and cloud customers	**19,548**	15,835
Online advertising customers and agencies	**13,751**	12,961
Third party platform providers	**6,087**	5,416
Content production related customers	**4,324**	5,580
Others	**5,621**	5,189
	49,331	44,981

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

The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The historical observed default rates are updated and changes in the forward-looking estimates are analysed at year end. For the years ended 31 December 2021 and 2020, information about the impairment of accounts receivable and the Group's exposure to credit risk and foreign exchange risk can be found in Note 3.1.

As at 31 December 2021, the carrying amounts of accounts receivable approximated their fair values.

31 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Bank balances and cash	**84,810**	85,233
Term deposits and highly liquid investments with initial terms within three months	**83,156**	67,565
	167,966	152,798

Approximately RMB77,181 million (31 December 2020: RMB58,651 million) and RMB1,133 million (31 December 2020: RMB7,207 million) within the total balance of the Group's cash and cash equivalents were denominated in RMB and placed with banks in the Mainland of China and Hong Kong, respectively.

(b) Restricted cash

As at 31 December 2021, restricted deposits held at banks of RMB2,476 million (31 December 2020: RMB2,520 million) were mainly denominated in RMB, the majority of which were reserves provided for certain licensed business under regulatory requirements.

32 ASSETS HELD FOR DISTRIBUTION

As at 31 December 2021, assets held for distribution represented the JD.com Shares held by the Group to be distributed in specie as the interim dividend declared on 23 December 2021 (Note 15(b) and Note 25(iv)).

On the Declaration Date, the JD.com Shares of approximately RMB97.1 billion designated as FVOCI were measured at fair value and classified as assets held for distribution. Subsequent changes in the fair value of these JD.com Shares amounting to approximately RMB5.4 billion were recorded in other comprehensive income during the year ended 31 December 2021.

33 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

As at 31 December 2021 and 2020, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

	Number of issued and fully paid ordinary shares*	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2021	**9,593,912,711**	**–**	**48,793**	**(4,412)**	**44,381**
Employee share option schemes:					
– value of employee services	–	–	1,661	–	1,661
– shares issued (Note (a))	4,834,315	–	1,043	–	1,043
Employee share award schemes:					
– value of employee services	–	–	18,347	–	18,347
– shares withheld for share award schemes (Note (b))	–	–	–	(2,827)	(2,827)
– shares allotted for share award schemes (Note (c))	15,213,243	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(2,090)	2,090	–
Repurchase and cancellation of shares (Note (e))	(5,581,800)	–	(2,170)	–	(2,170)
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	1,746	306	2,052
At 31 December 2021	**9,608,378,469**	**–**	**67,330**	**(4,843)**	**62,487**

33 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

	Number of issued and fully paid ordinary shares*	Share capital	Share premium	Shares held for share award schemes	Total
		RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2020	9,552,615,286	–	35,271	(4,002)	31,269
Employee share option schemes:					
– value of employee services	–	–	1,768	–	1,768
– shares issued (Note (a))	14,656,747	–	1,716	–	1,716
Employee share award schemes:					
– value of employee services	–	–	9,720	–	9,720
– shares withheld for share award schemes (Note (b))	–	–	–	(1,865)	(1,865)
– shares allotted for share award schemes (Note (c))	26,640,678	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(1,209)	1,209	–
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	1,527	246	1,773
At 31 December 2020	9,593,912,711	–	48,793	(4,412)	44,381

* As at 31 December 2021, the total number of issued ordinary shares of the Company included 69,902,440 shares (31 December 2020: 81,517,187 shares) held under the Share Award Schemes.

33 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

Note:

(a) During the year ended 31 December 2021, 4,834,315 Post-IPO options (2020: 15,656,921 Post-IPO options) with exercise prices ranging from HKD116.40 to HKD546.50 (2020: HKD112.30 to HKD444.20) were exercised. In 2020, the right to receive 1,000,174 options was surrendered by the grantees under the Post-IPO Option Scheme II to set off against the exercise consideration and individual income tax payable by the grantees when they exercise their options.

(b) During the year ended 31 December 2021, the Share Scheme Trust withheld 5,921,232 ordinary shares (2020: 4,259,939 ordinary shares) of the Company for an amount of approximately HKD3,394 million (equivalent to approximately RMB2,827 million) (2020: HKD2,108 million (equivalent to approximately RMB1,865 million)), which had been deducted from the equity.

(c) During the year ended 31 December 2021, the Company allotted 15,213,243 ordinary shares (2020: 26,640,678 ordinary shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the Share Award Schemes.

(d) During the year ended 31 December 2021, the Share Scheme Trust transferred 32,749,222 ordinary shares of the Company (2020: 27,351,216 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 35(b)).

(e) During the year ended 31 December 2021, the Company repurchased 5,581,800 of its own shares from the market which were subsequently cancelled (2020: nil). The shares were acquired at prices ranging from HKD412.60 to HKD516.00, with an average price of HKD465.58 per share.

34 OTHER RESERVES

	Capital reserves RMB'Million (Note (a))	FVOCI RMB'Million	Investments in associates and joint ventures RMB'Million	Currency translation differences RMB'Million	PRC statutory reserves RMB'Million (Note (b))	Share-based compensation reserves RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 1 January 2021	(27,238)	134,309	10,918	(5,871)	4,260	6,878	(2,117)	121,139
Transfer of gains on disposal and deemed disposal of financial instruments to retained earnings (Note (d))	–	(22,393)	–	–	–	–	–	(22,393)
Share of other changes in net assets of associates and joint ventures	–	–	8,429	–	–	–	–	8,429
Transfer of share of other changes in net assets of associates and joint ventures to profit or loss upon disposal and deemed disposal	–	–	(5,089)	–	–	–	–	(5,089)
Transfer of share of other comprehensive income to retained earnings upon disposal and deemed disposal of associates and joint ventures	–	–	(35)	–	–	–	–	(35)
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	53	–	53
– Employee share award schemes	–	–	–	–	–	611	–	611
Tax benefit from share-based payments	–	–	–	–	–	462	–	462
Acquisition of additional equity interests in non wholly-owned subsidiaries (Note (e))	(4,305)	–	–	–	–	–	–	(4,305)
Transfer of equity interests of subsidiaries to non-controlling interests	(2,323)	–	–	–	–	–	–	(2,323)
Recognition of put option liabilities arising from business combinations	(1,289)	–	–	–	–	–	–	(1,289)
Changes in put option liabilities in respect of non-controlling interests	1,483	–	–	–	–	–	–	1,483
Dilution of/changes in interests in subsidiaries	205	–	–	–	–	–	–	205
Profit appropriations to statutory reserves	–	–	–	–	669	–	–	669
Net losses from changes in fair value of FVOCI	–	(15,073)	–	–	–	–	–	(15,073)
Share of other comprehensive income of associates and joint ventures	–	–	512	–	–	–	–	512
Transfer of share of other comprehensive loss to profit or loss upon disposal and deemed disposal of associates and joint ventures	–	–	8	–	–	–	–	8
Currency translation differences	–	–	–	(18,032)	–	–	–	(18,032)
Lapses of put option liability in respect of non-controlling interests	783	–	–	–	–	–	–	783
Other fair value gains, net	–	–	–	–	–	–	2,706	2,706
Gain from changes in fair value of assets held for distribution	–	5,380	–	–	–	–	–	5,380
Balance at 31 December 2021	(32,684)	102,223	14,743	(23,903)	4,929	8,004	589	73,901

34 OTHER RESERVES (continued)

	Capital reserves RMB'Million (Note (a))	FVOCI RMB'Million	Investments in associates and joint ventures RMB'Million	Currency translation differences RMB'Million	PRC statutory reserves RMB'Million (Note (b))	Share-based compensation reserves RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 1 January 2020	(13,792)	11,167	7,408	3,145	3,524	5,817	(483)	16,786
Transfer of gains on disposal and deemed disposal of financial instruments to retained earnings (Note (d))	–	(4,731)	–	–	–	–	(420)	(5,151)
Share of other changes in net assets of associates and joint ventures	–	–	3,320	–	–	–	–	3,320
Transfer of share of other changes in net assets of associates to profit or loss upon disposal and deemed disposal	–	–	(154)	–	–	–	–	(154)
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	60	–	60
– Employee share award schemes	–	–	–	–	–	413	–	413
Tax benefit from share-based payments	–	–	–	–	–	588	–	588
Acquisition of additional equity interests in non wholly-owned subsidiaries	(2,795)	–	–	–	–	–	–	(2,795)
Transfer of equity interests of subsidiaries to non-controlling interests	(6,472)	–	–	–	–	–	–	(6,472)
Recognition of put option liabilities arising from business combinations	(2,730)	–	–	–	–	–	–	(2,730)
Changes in put option liability in respect of non-controlling interests	(765)	–	–	–	–	–	–	(765)
Dilution of/changes in interests in subsidiaries	(684)	–	–	–	–	–	–	(684)
Profit appropriations to statutory reserves	–	–	–	–	736	–	–	736
Net gains from changes in fair value of FVOCI	–	127,873	–	–	–	–	–	127,873
Share of other comprehensive income of associates and joint ventures	–	–	347	–	–	–	–	347
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates	–	–	(3)	–	–	–	–	(3)
Currency translation differences	–	–	–	(9,016)	–	–	–	(9,016)
Other fair value losses, net	–	–	–	–	–	–	(1,214)	(1,214)
Balance at 31 December 2020	(27,238)	134,309	10,918	(5,871)	4,260	6,878	(2,117)	121,139

34 OTHER RESERVES (continued)

Note:

(a) The capital reserve mainly arises from transactions undertaken with non-controlling interests.

(b) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profit (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(c) Share-based compensation reserve arises from share option schemes and share award schemes adopted by the subsidiaries of the Group (Note 35(d)).

(d) The Group has elected to recognise changes in the fair value of certain investments in equity instruments in other comprehensive income. These changes are accumulated with FVOCI reserve with equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

(e) During the year ended 31 December 2021, the acquisition of additional equity interests in non wholly-owned subsidiaries mainly comprised the additional acquisition of equity interest of Halti S.A. ("Halti"), a non wholly-owned subsidiary of the Group. The Group acquired additional 12.81% equity interest of Halti based on the agreed purchase price. This transaction was accounted for as transaction with non-controlling interest, and the excess of considerations over the aggregate carrying amounts of acquired non-controlling interests of RMB2,409 million was recognised directly in equity.

35 SHARE-BASED PAYMENTS

(a) Share option schemes

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

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III expired on 31 December 2011, 23 March 2014, 16 May 2017 and 13 May 2019, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes. As at 31 December 2021, there were no outstanding options exercisable of the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme III.

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

During the year ended 31 December 2021, the Company allowed certain grantees under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV to surrender their rights to receive a portion of the underlying shares (with equivalent fair value) to set off against the exercise price and/or individual income tax payable when they exercised their options.

35 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme IV		Total
	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2021	**HKD205.36**	**37,435,134**	**HKD380.50**	**67,806,750**	**105,241,884**
Granted	**–**	**–**	**HKD587.26**	**16,785,250**	**16,785,250**
Exercised	**HKD189.79**	**(2,278,079)**	**HKD321.25**	**(2,556,236)**	**(4,834,315)**
Lapsed/forfeited	**HKD124.30**	**(10,938)**	**HKD429.76**	**(346,483)**	**(357,421)**
At 31 December 2021	**HKD206.40**	**35,146,117**	**HKD424.63**	**81,689,281**	**116,835,398**
Exercisable as at 31 December 2021	**HKD206.36**	**35,024,304**	**HKD381.54**	**30,418,848**	**65,443,152**
At 1 January 2020	HKD185.86	50,358,800	HKD375.36	61,738,193	112,096,993
Granted	–	–	HKD396.39	9,318,989	9,318,989
Exercised	HKD129.34	(12,919,216)	HKD321.74	(2,737,705)	(15,656,921)
Lapsed/forfeited	HKD175.14	(4,450)	HKD364.34	(512,727)	(517,177)
At 31 December 2020	HKD205.36	37,435,134	HKD380.50	67,806,750	105,241,884
Exercisable as at 31 December 2020	HKD200.96	30,654,571	HKD376.39	20,038,030	50,692,601

35 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options (continued)

During the year ended 31 December 2021, 3,374,630 options (2020: 4,399,815 options) were granted to an executive director of the Company, out of which 843,657 options were voluntarily waived in February 2022.

As a result of the Distribution in Specie (Note 15(b)), pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, adjustments had been made to the exercise price of the share options which remained outstanding thereunder as at the Ex-dividend Date. Please refer to the announcement of the Company dated 14 March 2022 for details.

During the year ended 31 December 2021, 4,834,315 options (2020: 15,656,921 options) were exercised. The weighted average price of the shares at the time these options were exercised was HKD559.01 per share (equivalent to approximately RMB464.92 per share) (2020: HKD539.43 per share (equivalent to approximately RMB464.09 per share)).

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2021 and 2020 are as follows:

		Number of share options	
Expiry Date	**Range of exercise price**	**31 December 2021**	31 December 2020
7 years commencing from	HKD112.30~HKD174.86	**10,018,592**	11,082,519
the date of grant of options	HKD225.44~HKD272.36	**29,843,566**	32,520,471
(Post-IPO Option Scheme II and	HKD334.20~HKD386.60	**36,336,078**	37,549,600
Post-IPO Option Scheme IV)	HKD403.16~HKD444.20	**22,263,239**	22,362,446
	HKD502.50~HKD586.00	**9,797,440**	1,726,848
	HKD606.30~HKD618.00	**8,576,483**	–
		116,835,398	105,241,884

The outstanding share options as of 31 December 2021 were divided into one to four tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from one month to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

35 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company have used the Binomial Model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2021 was HKD178.35 per share (equivalent to approximately RMB149.72 per share) (2020: HKD115.13 per share (equivalent to approximately RMB104.72 per share)).

Other than the exercise price mentioned above, significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors in applying the Binomial Model, which are summarised as below.

	2021	2020
Weighted average share price at the grant date	**HKD582.94**	HKD396.24
Risk free rate	**0.94%~1.35%**	0.27%~1.52%
Dividend yield	**0.23%**	0.23%
Expected volatility (Note)	**31.00%~32.00%**	30.00%~31.00%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

35 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted three share award schemes (the "Share Award Schemes") as of 31 December 2021, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the years ended 31 December 2021 and 2020 are as follows:

	Number of awarded shares	
	2021	2020
At beginning of the year	**82,594,936**	76,615,755
Granted	**77,054,748**	37,196,540
Lapsed/forfeited	**(5,586,066)**	(3,866,143)
Vested and transferred	**(32,749,222)**	(27,351,216)
At end of the year	**121,314,396**	82,594,936
Vested but not transferred as at the end of the year	**17,515**	30,172

During the year ended 31 December 2021, 40,500 awarded shares were granted to four independent non-executive directors of the Company (2020: 59,500 awarded shares were granted to five independent non-executive directors of the Company).

As a result of the Distribution in Specie (Note 15(b)), pursuant to the scheme rules of the 2013 Share Award Scheme and the 2019 Share Award Scheme, adjustments had been made to the number of shares subject to share awards which remained unvested as at the Ex-dividend Date. Please refer to the announcement of the Company dated 14 March 2022 for details.

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2021 was HKD569.60 per share (equivalent to approximately RMB476.25 per share) (2020: HKD481.61 per share (equivalent to approximately RMB431.90 per share)).

35 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes (continued)

The outstanding awarded shares as of 31 December 2021 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from one month to five years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee investment schemes

For aligning the interests of key employees with the Group, the Group established several employees' investment plans in the form of limited liability partnerships (the "EIS") among which the six EISs approved/established in 2014, 2015, 2016, 2017 and 2021 are in effect as at 31 December 2021. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the years ended 31 December 2021 and 2020 were insignificant to the Group.

(d) Share options and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the respective board of directors of these subsidiaries at their sole discretion and in accordance with the relevant rules. The share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries ("Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction either by using equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that some of them would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method. For some of them settled in cash, they are accounted for using cash-settled share-based payment method.

35 SHARE-BASED PAYMENTS (continued)

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2021, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be not lower than 89% (31 December 2020: not lower than 91%).

36 BORROWINGS

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	**136,874**	110,629
Non-current portion of long-term EUR bank borrowings, unsecured (Note (a))	**–**	1,204
Non-current portion of long-term EUR bank borrowings, secured (Note (a))	**11**	12
Non-current portion of long-term RMB bank borrowings, unsecured (Note (a))	**–**	300
Non-current portion of long-term JPY bank borrowings, unsecured (Note (a))	**47**	–
Non-current portion of long-term JPY bank borrowings, secured (Note (a))	**4**	–
	136,936	112,145
Included in current liabilities:		
RMB bank borrowings, unsecured (Note (b))	**13,340**	4,079
RMB bank borrowings, secured (Note (b))	**200**	100
USD bank borrowings, unsecured (Note (b))	**–**	9,135
HKD bank borrowings, secured (Note (b))	**–**	144
Current portion of long-term USD bank borrowings, unsecured (Note (a))	**4,061**	783
Current portion of long-term RMB bank borrowings, unsecured (Note (a))	**300**	–
Current portion of long-term EUR bank borrowings, unsecured (Note (a))	**1,083**	–
Current portion of long-term EUR bank borrowings, secured (Note (a))	**2**	1
Current portion of long-term JPY bank borrowings, unsecured (Note (a))	**16**	–
Current portion of long-term JPY bank borrowings, secured (Note (a))	**1**	–
	19,003	14,242
	155,939	126,387

36 BORROWINGS (continued)

Note:

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

	31 December 2021		31 December 2020	
	Amount (Million)	**Interest rate (per annum)**	Amount (Million)	Interest rate (per annum)
USD bank borrowings	**USD22,045**	**LIBOR + 0.80% ~ 1.27%**	USD17,075	LIBOR + 0.70% ~ 1.27%
USD bank borrowings	**USD60**	**1.41%**	–	–
EUR bank borrowings	**EUR152**	**0.52% ~ 1.00%**	EUR151	0.52% ~ 1.00%
RMB bank borrowings	**RMB300**	**5.70%**	RMB300	5.70%
JPY bank borrowings	**JPY1,234**	**0.00% ~ 2.50%**	–	–

The zero interest rate of JPY borrowings was due to the special interest exemption for COVID-19 by Tokyo Metropolitan Government.

The long-term bank borrowings are repayable as follows:

	As at 31 December	
	2021 RMB'Million	2020 RMB'Million
Within 1 year	**5,463**	784
Between 1 and 2 years	**7,733**	4,409
Between 2 and 5 years	**129,197**	107,735
Over 5 years	**6**	1
	142,399	112,929

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

	31 December 2021		31 December 2020	
	Amount (Million)	**Interest rate (per annum)**	Amount (Million)	Interest rate (per annum)
RMB bank borrowings	**RMB13,540**	**2.45% ~ 5.10%**	RMB4,179	3.55% ~ 5.22%
USD bank borrowings	–	–	USD1,400	LIBOR + 0.45% ~ 0.50%
HKD bank borrowings	–	–	HKD171	HIBOR+ 0.90% ~ 3.90%

36 BORROWINGS (continued)

The Group had entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2021 are detailed in Note 27 and Note 39.

As at 31 December 2021, the carrying amounts of borrowings approximated their fair values.

37 NOTES PAYABLE

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	**145,590**	122,057

The aggregate principal amounts of notes payable and applicable interest rates are as follows:

	31 December 2021		31 December 2020	
	Amount (Million)	**Interest rate (per annum)**	Amount (Million)	Interest rate (per annum)
USD notes payable	**USD1,250**	**LIBOR + 0.605% ~ 0.910%**	USD1,250	LIBOR + 0.605% ~ 0.910%
USD notes payable	**USD21,700**	**1.375% ~ 4.700%**	USD17,550	1.375% ~ 4.700%

The Group had entered into certain interest rate swap contracts to hedge its exposure arising from its senior notes carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2021 are detailed in Note 27 and Note 39.

37 NOTES PAYABLE (continued)

The notes payable are repayable as follows:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Between 1 and 2 years	**9,554**	–
Between 2 and 5 years	**29,883**	30,572
More than 5 years	**106,153**	91,485
	145,590	122,057

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

In April 2021, the Company updated the Global Medium Term Note Programme (the "Programme") to include, among other things, the Company's recent corporate and financial information.

In April 2021, the Company issued four tranches of senior notes under the Programme with an aggregate principal amount of USD4.15 billion from 10 years to 40 years, with interest rates ranging from 2.88% to 3.94%.

As at 31 December 2021, the fair value of the notes payable amounted to RMB150,998 million (31 December 2020: RMB132,037 million). The respective fair values were assessed based on the active market prices of these notes at the reporting dates or by making reference to similar instruments traded in the observable market.

38 LONG-TERM PAYABLES

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Payables relating to media contents and running royalty fee for online games	**7,049**	7,290
Cash-settled share-based compensation payables (Note 35(d))	**615**	1,018
Purchase consideration payables for investee companies	**133**	104
Others	**2,169**	1,498
	9,966	9,910

39 OTHER FINANCIAL LIABILITIES

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Measured at amortised cost:		
Redemption liability (Note (a))	**6,664**	9,512
Measured at fair value:		
Contingent consideration	**2,405**	3,308
Interest rate swap (Note (b))	**358**	1,937
Others	**39**	64
	2,802	5,309
	9,466	14,821
Included in:		
Non-current liabilities	**5,912**	9,254
Current liabilities	**3,554**	5,567
	9,466	14,821

Note:

(a) It mainly comprised redemption liability arising from put option arrangements with non-controlling shareholders of acquired subsidiaries of approximately RMB6,664 million (31 December 2020: RMB9,512 million).

(b) It represented the Group's outstanding interest rate swap contracts measured at fair value amounting to RMB358 million (31 December 2020: RMB1,937 million). The aggregate notional principal amounts of the outstanding interest rate swap contracts were USD2,825 million (equivalent to approximately RMB18,011 million) (31 December 2020: USD15,058 million (equivalent to approximately RMB98,252 million)).

40 ACCOUNTS PAYABLE

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

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
0 ~ 30 days	**102,396**	82,916
31 ~ 60 days	**2,999**	2,196
61 ~ 90 days	**1,329**	665
Over 90 days	**2,746**	8,253
	109,470	94,030

41 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Staff costs and welfare accruals	**28,713**	25,541
Selling and marketing expense accruals	**7,668**	7,015
General and administrative expenses accruals	**3,371**	2,750
Purchase consideration payables for investee companies	**2,179**	2,548
Interests payable	**1,279**	1,119
Purchase of land use rights and construction related costs	**845**	844
Prepayments received from customers and others	**649**	894
Others (Note)	**15,878**	13,597
	60,582	54,308

Note:

Others primarily consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.

42 BUSINESS COMBINATIONS

(a) Privatisation of Sogou

On 23 September 2021, the Group completed the privatisation of Sogou, an existing listed associate (NYSE: SOGO; with equity interests held of approximately 39%) of the Group, at a cash consideration of approximately USD2,135 million (equivalent to approximately RMB13,812 million) for all of the remaining interest ("Privatisation"). As a result of the Privatisation, Sogou became a wholly-owned subsidiary of the Group. The existing equity interest (of approximately 39%) held under investment in an associate was re-measured to fair value and resulted in step up gain of approximately RMB3,807 million (Note 7(a)(iii)).

Goodwill of approximately RMB10,978 million was recognised as a result of the transaction. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose.

The following table summarises the purchase consideration, fair value of assets acquired and liabilities assumed as at the acquisition date of Sogou.

	RMB'Million
Total consideration:	
Cash consideration	**13,812**
Fair value of the previously held interests	**8,822**
	22,634
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Intangible assets	**7,500**
Cash and cash equivalents and term deposits	**4,325**
Other assets	**3,780**
Deferred income tax liabilities	**(1,872)**
Other payables and accruals	**(740)**
Other liabilities	**(1,337)**
Total identifiable net assets	**11,656**
Goodwill	**10,978**
	22,634

42 BUSINESS COMBINATIONS (continued)

(a) Privatisation of Sogou (continued)

Note:

The Group's revenue for the year ended 31 December 2021 would be increased by not more than 5% and results for the year ended 31 December 2021 would not be materially different should the transaction have occurred on 1 January 2021.

The related transaction costs of the transaction are not material to the Group's consolidated financial information.

(b) Other business combinations

During the year ended 31 December 2021, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions were approximately RMB10,854 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB3,862 million, RMB1,289 million and RMB8,281 million, respectively.

The revenue and the results contributed by these acquired subsidiaries for the period since respective acquisition date were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions have occurred on 1 January 2021.

The related transaction costs of these business combinations are not material to the Group's consolidated financial statements.

43 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash inflow from operating activities:

	2021 RMB'Million	2020 RMB'Million
Profit for the year	**227,810**	160,125
Adjustments for:		
Income tax expense	**20,252**	19,897
Net gains on disposals and deemed disposals of investee companies	**(118,051)**	(24,390)
Dividend income	**(660)**	(1,765)
Depreciation of property, plant and equipment, investment properties and right-of-use assets	**26,166**	21,458
Amortisation of intangible assets and land use rights	**31,504**	29,316
Net gains on disposals of intangible assets and property, plant and equipment	**(35)**	(120)
Interest income	**(6,650)**	(6,957)
Interest and related expenses	**7,918**	7,449
Equity-settled share-based compensation expenses	**21,625**	12,634
Share of loss/(profit) of associates and joint ventures, net	**16,444**	(3,672)
Impairment provision for investments in associates, investments in joint ventures and others	**16,315**	6,642
Net fair value gains on FVPL and other financial instruments	**(47,717)**	(38,909)
Net impairment of intangible assets, land use rights, right-of-use assets and property, plant and equipment	**8,704**	4,872
Exchange (gains)/losses, net	**(804)**	438
Changes in working capital:		
Accounts receivable	**(4,026)**	(7,530)
Inventories	**1,297**	(95)
Prepayments, deposits and other receivables	**(17,782)**	117
Accounts payable	**20,598**	13,033
Other payables and accruals	**(1,184)**	2,828
Other tax liabilities	**(305)**	886
Deferred revenue	**2,293**	18,184
Cash generated from operations	**203,712**	214,441

43 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Major non-cash transactions

Major non-cash transaction during the year ended 31 December 2021 was the dividend declared to be distributed in specie of JD.com Shares (Note 15(b)).

(c) Net (debt)/cash reconciliation

This section sets out an analysis of net (debt)/cash and the movements in net (debt)/cash for each of the years presented.

Net (debt)/cash	**As at 31 December**	
	2021	2020
	RMB'Million	RMB'Million
Cash and cash equivalents	**167,966**	152,798
Term deposits and others	**113,320**	106,709
Borrowings – repayable within one year	**(19,003)**	(14,242)
Borrowings – repayable after one year	**(136,936)**	(112,145)
Notes payable – repayable within one year	**–**	–
Notes payable – repayable after one year	**(145,590)**	(122,057)
Net (debt)/cash	**(20,243)**	11,063

43 CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Net (debt)/cash reconciliation (continued)

	Cash and cash equivalents RMB'Million	Term deposits and others RMB'Million	Borrowings due within 1 year RMB'Million	Borrowings due after 1 year RMB'Million	Notes payable due within 1 year RMB'Million	Notes payable due after 1 year RMB'Million	Total RMB'Million
Net cash as at 1 January 2021	**152,798**	**106,709**	**(14,242)**	**(112,145)**	**–**	**(122,057)**	**11,063**
Cash flows	**18,257**	**349**	**616**	**(33,346)**	**–**	**(27,060)**	**(41,184)**
Exchange impacts	**(3,089)**	**(871)**	**199**	**3,044**	**–**	**3,597**	**2,880**
Other non-cash movements (Note)	**–**	**7,133**	**(5,576)**	**5,511**	**–**	**(70)**	**6,998**
Net debt as at 31 December 2021	**167,966**	**113,320**	**(19,003)**	**(136,936)**	**–**	**(145,590)**	**(20,243)**
Net debt as at 1 January 2020	132,991	72,270	(22,695)	(104,257)	(10,534)	(83,327)	(15,552)
Cash flows	25,811	23,938	9,105	(16,107)	10,460	(47,948)	5,259
Exchange impacts	(6,004)	(2,214)	619	7,792	76	9,277	9,546
Other non-cash movements (Note)	–	12,715	(1,271)	427	(2)	(59)	11,810
Net cash as at 31 December 2020	152,798	106,709	(14,242)	(112,145)	–	(122,057)	11,063

Note:

It mainly resulted from the reclassification from non-current to current and assets/liabilities acquired from business combinations.

44 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2021 and 2020 are analysed as follows:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	**3,337**	3,541
Purchase of other property, plant and equipment	**286**	391
Capital investment in investees	**12,798**	21,656
	16,421	25,588

(b) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media contents agreements are as follows:

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**15,481**	11,443
Later than one year and not later than five years	**11,392**	9,847
Later than five years	**6,113**	4,199
	32,986	25,489

45 RELATED PARTY TRANSACTIONS

Except as disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 26 (Loans to investees and investees' shareholders) and Note 35 (Share-based payments) to the consolidated financial statements, other significant transactions carried out between the Group and its related parties during the years are presented as followings. The related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

45 RELATED PARTY TRANSACTIONS (continued)

(a) Significant transactions with related parties

The Group has commercial arrangements with certain associates and joint ventures to provide Online Advertising services, FinTech and Business Services, and other services. During the year ended 31 December 2021, revenue recognised in connection with these services provided to associates and joint ventures of RMB12,085 million, RMB38,745 million and RMB3,599 million were recorded in the consolidated income statement, respectively (2020: RMB11,554 million, RMB25,885 million and RMB2,629 million respectively).

The Group has commercial arrangements with certain associates to purchase online game licenses and related services, film and television content and related services, FinTech and Business Services and others. During the year ended 31 December 2021, the amounts relating to these contents and services received from associates were RMB8,278 million, RMB7,040 million, RMB4,335 million and RMB1,430 million, respectively (2020: RMB8,266 million, RMB5,285million, RMB3,058 million and RMB1,489 million, respectively).

(b) Year end balances with related parties

As at 31 December 2021, trade receivables and other receivables from related parties were RMB12,589 million and RMB161 million, respectively (31 December 2020: RMB9,840 million and RMB67 million, respectively).

As at 31 December 2021, trade payables and other payables to related parties were RMB2,257 million and RMB172 million, respectively (31 December 2020: RMB3,719 million and RMB333 million, respectively).

During the year ended 31 December 2021, the Group had undertaken transactions relating to the provision of various services such as FinTech services, business services and online advertising to certain associates and joint ventures, which mainly engaged in various Internet businesses such as eCommerce, O2O platforms, FinTech services under, among others, certain business co-operation arrangements. As at 31 December 2021, contract liabilities relating to support to be offered to certain associates and joint ventures were RMB3,262 million (31 December 2020: RMB5,469 million).

Other than the transactions and balances disclosed above or elsewhere in the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2021 and 2020, and no other material balances with related parties as at 31 December 2021 and 2020.

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
ASSETS		
Non-current assets		
Intangible assets	**35**	37
Investments in subsidiaries	**180,881**	157,481
Investments in associates	**359**	76
Contribution to Share Scheme Trust	**9**	81
	181,284	157,675
Current assets		
Amounts due from subsidiaries	**49,927**	26,565
Prepayments, deposits and other receivables	**10**	312
Cash and cash equivalents	**116**	80
Assets held for distribution	**102,451**	–
	152,504	26,957
Total assets	**333,788**	184,632

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) Financial position of the Company (continued)

	As at 31 December	
	2021	2020
	RMB'Million	RMB'Million
EQUITY		
Share capital	**–**	–
Share premium	**67,330**	48,793
Shares held for share award schemes	**(4,843)**	(4,412)
Other reserves (b)	**3,708**	(1,114)
Retained earnings (b)	**506**	2,685
Total equity	**66,701**	45,952
LIABILITIES		
Non-current liabilities		
Notes payable	**140,528**	116,883
Other financial liabilities	**114**	236
	140,642	117,119
Current liabilities		
Amounts due to subsidiaries	**22,796**	20,481
Other payables and accruals	**1,198**	1,080
Dividends payable for distribution in specie	**102,451**	–
	126,445	21,561
Total liabilities	**267,087**	138,680
Total equity and liabilities	**333,788**	184,632

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(b) Reserve movement of the Company

	Retained earnings RMB'Million	Other reserves RMB'Million
At 1 January 2021	**2,685**	**(1,114)**
Profit for the year	**112,955**	**–**
Dividends	**(115,134)**	**–**
Gain from changes in fair value of assets held for distribution	**–**	**5,380**
Currency translation differences	**–**	**(558)**
At 31 December 2021	**506**	**3,708**
At 1 January 2020	2,729	171
Profit for the year	10,405	–
Dividends	(10,449)	–
Currency translation differences	–	(1,285)
At 31 December 2020	2,685	(1,114)

47 SUBSEQUENT EVENTS

Disposal of Equity Interests of Sea Limited

On 4 January 2022, the Group has entered into a transaction to divest an aggregate of 14,492,751 Class A ordinary shares of Sea Limited ("Sea"; NYSE: SE), an existing associate of the Group, and to convert its all supervoting Class B ordinary shares to Class A ordinary shares (collectively, the "Transaction"). Upon the completion of the Transaction, the Group's equity interest in Sea was reduced from 21.3% to 18.7% with its voting power reduced to less than 10%. In connection with the Transaction, the Group is subject to a lockup period of six months for further disposal of shares of Sea. The Transaction has been completed as of the date of this annual report.

48 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2021:

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Computer	Established in the PRC, limited liability company	RMB65,000,000	100% (Note (a))	Provision of value-added services and Internet advertisement services in the PRC
Tencent Technology	Established in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	Development of softwares and provision of information technology services in the PRC
Shenzhen Shiji Kaixuan Technology Company Limited	Established in the PRC, limited liability company	RMB11,000,000	100% (Note (a))	Provision of Internet advertisement services in the PRC
Tencent Cyber (Tianjin) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Asset Management Limited	Established in the British Virgin Islands, limited liability company	USD100	100%	Asset management in Hong Kong
Tencent Technology (Beijing) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	Development and sale of softwares and provision of information technology services in the PRC
Nanjing Wang Dian Technology Company Limited	Established in the PRC, limited liability company	RMB10,290,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing BIZCOM Technology Company Limited	Established in the PRC, limited liability company	RMB1,216,500,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing Starsinhand Technology Company Limited	Established in the PRC, limited liability company	RMB10,000,000	100% (Note (a))	Provision of value-added services in the PRC
Tencent Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares in the PRC

48 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Technology (Shanghai) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Chengdu) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD220,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Wuhan) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Cloud Computing (Beijing) Company Limited	Established in the PRC, limited liability company	RMB1,042,500,000	100% (Note (a))	Provision of information system integration services in the PRC
Beijing Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC
Riot Games, Inc.	Established in the United States, limited liability company	USD1,308	99.88%	Development and operation of online games in the United States
China Literature Limited	Established in the Cayman Islands, limited liability company	USD102,203	57.18%*	Provision of online literature services in the PRC
TME (Note (b))	Established in the Cayman Islands, limited liability company	USD280,030	50.18%*	Provision of online music entertainment services in the PRC
Supercell Oy	Established in Finland, limited liability company	EUR2,500	81.76%	Development and operation of mobile games in Finland
Shenzhen Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC

* on an outstanding basis

48 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Note:

(a) As described in Note 1, the Company does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.

(b) In September 2020, TME issued two tranches of senior notes with an aggregate principal amount of USD800 million due in 5 years to 10 years, with interest rate ranging from 1.375% to 2.000%. As at 31 December 2021, the principal amount and net book balance of its notes payable were USD800 million and USD794 million (equivalent to RMB5,101 million and RMB5,062 million), respectively.

(c) The directors of the Company considered that the non wholly-owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarised financial information of these non wholly-owned subsidiaries is presented separately.

(d) All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary's undertakings held directly by the parent company does not differ from its proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.

(e) Significant restrictions

As at 31 December 2021, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB152,662 million were held in the Mainland of China and they are subject to local exchange control and other financial and treasury regulations. The local exchange control, and other financial and treasury regulations provide for restrictions, on payment of dividends, share repurchase and offshore investments, other than through normal activities.

(f) Consolidation of structured entities

As mentioned in Note (a) above and Note 35(c), the Company has consolidated the operating entities within the Group without any legal interests and the EISs out of which wholly-owned subsidiaries of the Company act as general partner. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 35(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	**Principal activities**
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

During the year ended 31 December 2021, the Company contributed approximately RMB2,827 million (2020: RMB1,865 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.

Definition

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

Term	**Definition**
"2007 Share Award Scheme"	the share award scheme adopted by the Company on Adoption Date I, as amended
"2013 Share Award Scheme"	the share award scheme adopted by the Company on Adoption Date II, as amended from time to time
"2019 Share Award Scheme"	the share award scheme adopted by the Company on Adoption Date III, as amended from time to time
"2022 AGM"	the annual general meeting of the Company to be held on 18 May 2022 or any adjournment thereof
"Adoption Date I"	13 December 2007, being the date on which the Company adopted the 2007 Share Award Scheme
"Adoption Date II"	13 November 2013, being the date on which the Company adopted the 2013 Share Award Scheme
"Adoption Date III"	25 November 2019, being the date on which the Company adopted the 2019 Share Award Scheme
"AI"	artificial intelligence
"Articles of Association"	the second amended and restated articles of association of the Company adopted by special resolution passed on 13 May 2020
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Awarded Share(s)"	the share(s) of the Company awarded under the Share Award Schemes

Definition

Term	Definition
"Beijing BIZCOM"	Beijing BIZCOM Technology Company Limited
"Beijing Starsinhand"	Beijing Starsinhand Technology Company Limited
"Bitauto"	Bitauto Holdings Limited, a company incorporated in the Cayman Islands with limited liability, which became a non wholly-owned subsidiary of the Company following completion of its privatisation in November 2020
"Board"	the board of directors of the Company
"CG Code"	the corporate governance code as set out in Appendix 14 to the Listing Rules
"China Literature"	China Literature Limited, a non wholly-owned subsidiary of the Company which is incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
"Chongqing Tencent Information"	Chongqing Tencent Information Technology Company 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 Stock Exchange
"Company Website"	the website of the Company at www.tencent.com
"Corporate Governance Committee"	the corporate governance committee of the Company
"COSO Framework"	the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations
"CRM"	Customer Relationship Management
"Cyber Shenzhen"	Tencent Cyber (Shenzhen) Company Limited
"Cyber Tianjin"	Tencent Cyber (Tianjin) Company Limited
"DAU"	daily active user accounts

Term	Definition
"Distribution in Specie"	the distribution of a special interim dividend by the Company in the form of a distribution in specie of the JD.com Shares held by the Group to the shareholders whose names appeared on the register of members of the Company on 25 January 2022 in proportion to their then respective shareholdings in the Company on the basis of 1 Class A ordinary share of JD.com for every 21 Shares held by the shareholders
"DnF"	Dungeon and Fighter
"Domestic Games"	for the purpose of preparing financial and operating information, Domestic Games refers to our games business in the PRC, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"Eligible Person(s)"	any person(s) eligible to participate in the respective Share Award Schemes
"EPS"	earnings per share
"ESG Reporting Guide"	the environmental, social and governance reporting guide as set out in Appendix 27 to the Listing Rules
"Ex-dividend Date"	20 January 2022, being the date of commencement of dealing in the Shares on an ex-entitlement basis following the declaration of interim dividend by way of the Distribution in Specie as announced by the Company on 23 December 2021
"FinTech"	financial technology
"FPO"	Follow-on Public Offering
"GMV"	gross merchandise value

Definition

Term	Definition
"Grant Date"	in relation to any Awarded Share, the date on which the Awarded Share is, was or is to be granted
"Group"	the Company and its subsidiaries
"Guangzhou Tencent Technology"	Guangzhou Tencent Technology Company Limited
"Guian New Area Tencent Cyber"	Guian New Area Tencent Cyber Company Limited
"Hainan Network"	Hainan Tencent Network Information Technology Company Limited
"HIBOR"	Hong Kong InterBank Offered Rate
"HKD"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region, the PRC
"HUYA"	HUYA Inc. (NYSE: HUYA), a non wholly-owned subsidiary of the Company which is incorporated in the Cayman Islands with limited liability and the shares of which are listed on the New York Stock Exchange
"IA"	internal audit department of the Company
"IaaS"	Infrastructure-as-a-Service
"IAS"	International Accounting Standards
"IC"	risk management and internal control department of the Company
"IFRS"	International Financial Reporting Standards
"IM"	Instant Messaging

Term	Definition
"International Games"	for the purpose of preparing financial and operating information, International Games refers to our games business other than our Domestic Games business
"Investment Committee"	the investment committee of the Company
"IP"	intellectual property
"IPO"	initial public offering
"JD.com"	JD.com, Inc., a company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability, whose American depositary shares are listed on NASDAQ (stock symbol: JD, ISIN Code: US47215P1066) and whose Class A ordinary shares are listed on the Stock Exchange (stock code: 9618)
"JD.com Shares"	the approximately 457 million Class A ordinary shares in the share capital of JD.com with a par value of USD0.00002 each, held by the Group conferring a holder of a Class A ordinary share to one vote per share on any resolution tabled at JD.com's general meeting and which are to be distributed pursuant to the Distribution in Specie
"JPY"	the lawful currency of Japan
"LIBOR"	London InterBank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"M&A"	mergers and acquisitions
"MAU"	monthly active user accounts

Definition

Term	Definition
"MIH TC"	MIH TC Holdings Limited
"Minor(s)"	players who are aged under 18
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"NASDAQ"	NASDAQ Global Select Market
"Nomination Committee"	the nomination committee of the Company
"O2O"	online-to-offline, or offline-to-online
"PaaS"	Platform-as-a-Service
"PBOC"	People's Bank of China
"PC"	personal computer
"Post-IPO Option Scheme I"	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
"Post-IPO Option Scheme II"	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
"Post-IPO Option Scheme III"	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
"Post-IPO Option Scheme IV"	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017
"PRC" or "China"	the People's Republic of China
"PRC CIT"	PRC corporate income tax as defined in the "Corporate Income Tax Law of the People's Republic of China"
"Pre-IPO Option Scheme"	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
"PUBG"	PlayerUnknown's Battlegrounds

Term	Definition
"R&D"	research and development
"Reference Date"	in respect to a Selected Participant, the date of final approval by the Board of the total number of shares of the Company to be awarded to the relevant Selected Participant on a single occasion pursuant to the 2007 Share Award Scheme
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	the lawful currency of the PRC
"SaaS"	Software-as-a-Service
"Selected Participant(s)"	any Eligible Person(s) selected by the Board to participate in the respective Share Award Schemes
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shanghai Tencent Information"	Shanghai Tencent Information Technology Company Limited
"Share(s)"	ordinary share(s) of HKD0.00002 each in the share capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time)
"Share Award Schemes"	the 2007 Share Award Scheme, the 2013 Share Award Scheme and the 2019 Share Award Scheme
"Share Subdivision"	with effect from 15 May 2014, each existing issued and unissued share of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each, after passing of an ordinary resolution at the annual general meeting of the Company held on 14 May 2014 and granting by the Stock Exchange of the listing of, and permission to deal in, the subdivided shares

Definition

Term	Definition
“Shenzhen Tencent Information”	Shenzhen Tencent Information Technology Company Limited
“Shenzhen Tencent Network”	Shenzhen Tencent Network Information Technology Company Limited
“Shenzhen Tencent Tianyou”	Shenzhen Tencent Tianyou Technology Company Limited
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited
“SKT CFC”	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan
“SKT Co-operation Committee”	the co-operation committee established under the SKT CFC
“SMEs”	small and medium enterprises
“Sogou”	Sogou Inc., a company incorporated in the Cayman Islands with limited liability, which became a wholly-owned subsidiary of the Company following completion of its privatisation in September 2021
“SSV & CPP”	Sustainable Social Value and Common Prosperity Programme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland
“TCS CFC”	the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer
“TCS Co-operation Committee”	the co-operation committee established under the TCS CFC
“Tencent Beijing”	Tencent Technology (Beijing) Company Limited
“Tencent Chengdu”	Tencent Technology (Chengdu) Company Limited

Term	Definition
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited
"Tencent Enterprise Management"	Shenzhen Tencent Enterprise Management Limited
"Tencent Shanghai"	Tencent Technology (Shanghai) Company Limited
"Tencent Technology"	Tencent Technology (Shenzhen) Company Limited
"Tencent Wuhan"	Tencent Technology (Wuhan) Company Limited
"TME"	Tencent Music Entertainment Group (NYSE: TME), a non wholly-owned subsidiary of the Company which is incorporated in the Cayman Islands with limited liability and the shares of which are listed on the New York Stock Exchange
"ToB"	Product/Service provided to business customers
"Trust Deed I"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2007 Share Award Scheme
"Trust Deed II"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2013 Share Award Scheme
"Trust Deed III"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2019 Share Award Scheme
"Trustee"	an independent trustee appointed by the Company for managing the Share Award Schemes
"United States"	the United States of America

Definition

Term	Definition
"USD"	the lawful currency of the United States
"VAS"	value-added services
"Wang Dian"	Nanjing Wang Dian Technology Company Limited
"WFOEs"	Tencent Technology, Cyber Tianjin, Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network, Guian New Area Tencent Cyber, Cyber Shenzhen and Wuhan Tencent Information
"Wuhan Tencent Information"	Wuhan Tencent Information Technology Company Limited

Tencent 腾讯

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