

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

2020 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
Iain Ferguson Bruce
Ian Charles Stone
Yang Siu Shun
Ke Yang

AUDIT COMMITTEE

Yang Siu Shun (*Chairman*)
Iain Ferguson Bruce
Ian Charles Stone
Charles St Leger Searle

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle (*Chairman*)
Iain Ferguson Bruce
Ian Charles Stone
Yang Siu Shun
Ke Yang

INVESTMENT COMMITTEE

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

NOMINATION COMMITTEE

Ma Huateng (*Chairman*)
Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone
Charles St Leger Searle

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29/F., Three Pacific Place
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				2020 RMB'Million
	2016 RMB'Million	2017 RMB'Million	2018 RMB'Million	2019 RMB'Million	
Revenues	151,938	237,760	312,694	377,289	482,064
Gross profit	84,499	116,925	142,120	167,533	221,532
Profit before income tax	51,640	88,215	94,466	109,400	180,022
Profit for the year	41,447	72,471	79,984	95,888	160,125
Profit attributable to equity holders of the Company	41,095	71,510	78,719	93,310	159,847
Total comprehensive income for the year	48,617	79,061	67,760	119,901	281,173
Total comprehensive income attributable to equity holders of the Company	48,194	78,218	66,339	116,670	277,834
Non-IFRS profit attributable to equity holders of the Company	45,420	65,126	77,469	94,351	122,742

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				2020 RMB'Million
	2016 RMB'Million	2017 RMB'Million	2018 RMB'Million	2019 RMB'Million	
Assets					
Non-current assets	246,745	376,226	506,441	700,018	1,015,778
Current assets	149,154	178,446	217,080	253,968	317,647
Total assets	395,899	554,672	723,521	953,986	1,333,425
Equity and liabilities					
Equity attributable to equity holders of the Company	174,624	256,074	323,510	432,706	703,984
Non-controlling interests	11,623	21,019	32,697	56,118	74,059
Total equity	186,247	277,093	356,207	488,824	778,043
Non-current liabilities	108,455	125,839	164,879	225,006	286,303
Current liabilities	101,197	151,740	202,435	240,156	269,079
Total liabilities	209,652	277,579	367,314	465,162	555,382
Total equity and liabilities	395,899	554,672	723,521	953,986	1,333,425



Chairman's Statement

I am pleased to present our annual report for the year ended 31 December 2020 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2020 was RMB159,847 million, an increase of 71% compared with the results for the previous year. Basic and diluted EPS for the year ended 31 December 2020 were RMB16.844 and RMB16.523, respectively.

The Group's non-IFRS profit attributable to equity holders of the Company for the year ended 31 December 2020 was RMB122,742 million, an increase of 30% compared with the results for the previous year. Non-IFRS basic and diluted EPS for the year ended 31 December 2020 were RMB12.934 and RMB12.689, respectively.

OPERATING INFORMATION

	As at 31 December 2020	As at 31 December 2019	Year-on- year change	As at 30 September 2020	Quarter-on- quarter change
Combined MAU of Weixin and WeChat	1,225.0	1,164.8	5.2%	1,212.8	1.0%
Smart device MAU of QQ	594.9	647.0	-8.1%	617.4	-3.6%
Fee-based VAS registered subscriptions	219.5	180.1	21.9%	213.4	2.9%

(in millions, unless specified)

BUSINESS REVIEW AND OUTLOOK

Strategic Progress and Outlook

While 2020 was an unprecedentedly challenging year, we believe our solid operational and financial results testify to our focus on user value and technology innovation. Below are some highlights from our key products and business lines:

Communication and Social

Throughout the past decade, Weixin has evolved from an instant messaging app to a service meeting the digital needs of over 1.2 billion users. Each day, more than 120 million users post in Moments, 360 million users read Official Accounts articles and 400 million users access Mini Programs. SMEs and brands increasingly connect with users via Mini Programs and Weixin Pay, and annual transaction volume generated from Mini Programs more than doubled year-on-year in 2020.



Users are increasingly uploading personal videos, and sharing them with friends, in Weixin Moments and chats. They can now share informative videos publicly through our product innovation – Video Accounts. Video Accounts also enable brands and enterprises to broaden their audience reach and drive transactions, especially via links to Mini Programs.

Within QQ, we focused on enhancing interactive experiences in vertical communities. We increased stickiness among young users by enriching communal experiences such as playing AI-powered social games and watching Tencent Video together in video calls. QQ's video and image feed services, Mini World, increased its user engagement as we added hashtag feature and initiated trending topics that resonate with Generation Z. We launched joint promotions and celebrity eSports events for our popular games such as Honour of Kings and Call of Duty Mobile. We provided interactive learning experiences such as quiz challenges through partnering with educational institutions.

Looking forward, we will seek to provide lively chat experiences and to facilitate users in sharing content with broader communities. We will enrich interest-based community experiences for young QQ users, while delivering a better social commerce experience within the Weixin ecosystem for consumers, SMEs and brands.

Online Games

We strengthened our global leadership in mobile and PC games via self-developed franchises and IP collaboration with partners and investee companies. Our leadership spans multiple genres, including MOBA, shooter and MMORPG, as well as multiple platforms, including mobile and PC.

Honour of Kings was the top-grossing mobile game worldwide for the second consecutive year and continued as the most popular mobile game in China by MAU. In January 2021, we released the biggest-ever update for Honour of Kings with a new hero, skins and user interface. We upgraded our rendering technology, which enhanced visual effects with minimal performance overhead, enabling more compelling content and game experience in future upgrades.

The launch of Call of Duty Mobile in China drew hardcore players with a fast-paced and competitive first-person-shooting experience, complementing Peacekeeper Elite and CrossFire Mobile within the shooter genre.

The release of Moonlight Blade Mobile demonstrated our capabilities in the MMORPG genre. Aurora Studio extended this IP from PC to mobile while retaining its distinctive oriental style and semi-sandbox open world design. Moonlight Blade Mobile ranked as the top grossing MMORPG on iOS in China during the fourth quarter of 2020.

Our partnership with Nintendo extended our home entertainment offerings to consoles. By the end of 2020, we have distributed over 1 million Switch consoles and published a dozen popular Switch titles in China.



Chairman's Statement

To maintain a healthy gameplay environment for teenagers in China, we made ongoing upgrades to the Healthy Gameplay System, which aims to help parents manage younger users' in-game play time and spending. During the fourth quarter of 2020, minors aged under 18 accounted for 6.0% of our China online game gross receipts. Among which, minors aged under 16 accounted for 3.2% of our China online game gross receipts.

League of Legends attracted over 45 million peak concurrent viewers for its 2020 World Championship Finals, setting a record viewership for a games eSports event. The rollout of League of Legends' mobile version, Wild Rift, further expanded its franchise user base.

PUBG Mobile ranked as the most popular mobile game in international markets by MAU for the second consecutive year, according to App Annie. The PUBG Mobile Global Championship became the most viewed eSports tournament of mobile games.

Digital Content

Our fee-based VAS subscriptions grew 22% year-on-year to 219 million. We are the leader in the long form video industry with 123 million video subscriptions, benefitting from the release of popular anime IPs and drama series. We have extended our IP value across literature, anime, games and long form video services to create appealing content and attract paying users. We are also building vibrant short form video communities to encourage interaction between viewers and creators, and to deliver knowledge-based video content. The mini drama series we showed on Weishi gained great popularity, generating billions of video views and social media posts. We sustained music subscription growth with the pay-for-streaming model. At China Literature, we have sought to enrich free and paid content, community features and an IP-centric ecosystem.

Online Advertising

We integrated our advertising platforms, strengthening our own properties as well as mobile advertising network as preferred choices for advertisers.

In Weixin Moments, we enabled performance-oriented advertisers to link their advertisements to Mini Programs, boosting their sales conversion. Our mobile advertising network offered customised in-app advertising solutions, ramping up in-game advertising revenue from third-party game companies and Internet services providers.

Looking forward, we will continue to strengthen our recommendation algorithms and analytic services to increase user acquisition efficiency and sales conversion for advertisers.



FinTech

The strategic focus for our FinTech business is to work closely with regulators and collaborate with industry partners to deliver compliant and inclusive FinTech products, while prioritising risk management over scale.

As consumption rebounded and payment digitalisation accelerated, our payment transaction volume increased healthily year-on-year, driven by more daily active consumers and higher payment frequency in multiple verticals, such as retail, public services and groceries. Our commercial take rates remained stable. For wealth management service, aggregated customer assets grew robustly year-on-year.

Cloud and Other Business Services

We invested in IaaS technology, including our customised “Star Lake” cloud server solutions and self-developed data centre technology “T-block”, to enhance our Cloud Services’ performance and cost efficiency. We developed a new generation Star Lake SA3 server powered by the latest generation AMD EPYC processors, enhancing AI, security, storage and network capabilities with better energy efficiency.

In the area of SaaS products, Tencent Meeting has become the largest standalone app for cloud conferencing in China. The recently released enterprise version of Tencent Meeting penetrated the energy, healthcare and education industries. We rolled out new conference room solutions, Tencent Meeting Rooms and Connector, which are compatible with customers’ existing audiovisual equipment and facilitate high-quality interactive communication. WeCom, the enterprise version of Weixin, has become an integral communications tool for remote workplaces, serving over 5.5 million enterprise customers, better connecting them internally and to over 400 million Weixin users.

We will continue to invest in cloud computing infrastructure and technology, leverage our communication and productivity strengths while working with partners to upgrade our PaaS and SaaS solutions.



Chairman's Statement

Environmental, Social and Governance (“ESG”) Initiatives

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

Environmental

We recently announced our commitment in moving towards carbon neutrality to help tackle climate change, and are exploring renewable energy solutions for the operation of our office buildings and data centres. We also leverage our expertise in AI, big data, and cloud computing with the mission of helping manage sustainability problems for the planet, such as smart agriculture solutions. TiMi Studios, the developer of Honour of Kings, has recently joined the Playing for the Planet Alliance, a collective effort initiated by the United Nations Environment Programme to decarbonise and integrate environmental activations into games.

Social

User privacy and data security are top priorities at Tencent. We focus on user experience and adhere to a “privacy by design” approach. We deploy advanced technologies such as data encryption, data masking, de-identification and quantum cryptography, to safeguard users' data security.

We have upgraded our Balanced Online Entertainment System in China to help parents prevent excessive use of online services by minors.

Tencent Health Code has facilitated domestic travel during the COVID-19 period. We also assisted enterprises to maintain business continuity through Weixin Pay, Mini Programs and other digital solutions.

We have built Tencent Charity Platform into an efficient fundraising platform, while also providing technology for the digitalisation of charitable organisations to engage with supporters. In 2020, our flagship charity event, 99 Giving Day, engaged over 18 million users and 10,000 charities, raising over RMB3 billion within three days. Through Weixin and QQ, we bridge the digital divide for the elderly and the disadvantaged. We support rural vitalisation through our WeCounty initiative, connecting over 16,000 villages and 2.5 million villagers.



Governance

We have established stringent risk management and internal controls to maintain the highest standards in corporate governance. Anti-fraud and whistleblowing policies are also in place in order to identify and prevent fraud and corruption. We believe diversity is key to effective governance and are dedicated to enhancing board diversity in gender, background and expertise.

Looking into the future, with our vision “Value for Users, Tech for Good”, we will continue to harness the power of technology in developing innovative products and services, and creating value for all stakeholders.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD1.60 per share (2019: HKD1.20 per share) for the year ended 31 December 2020, subject to the approval of the shareholders at the 2021 AGM. Such proposed dividend will be payable on 7 June 2021 to the shareholders whose names appear on the register of members of the Company on 27 May 2021.

APPRECIATION

On behalf of the Board, I would like to express our wholehearted appreciation to our staff and management team for their remarkable contributions to the Company and their untiring dedication to accomplish our mission of “Value for Users, Tech for Good”. I would also like to extend our gratitude to all our shareholders and stakeholders for their unwavering support and trust during this challenging period. We will strive to build a sustainable ecosystem in the Consumer Internet and Industrial Internet sectors and create value for our users with our products and services.

Ma Huateng

Chairman

Hong Kong, 24 March 2021



Management Discussion and Analysis

YEAR ENDED 31 DECEMBER 2020 COMPARED TO YEAR ENDED 31 DECEMBER 2019

The following table sets forth the comparative figures for the years ended 31 December 2020 and 2019:

	Year ended 31 December	
	2020	2019
	(RMB in millions)	
Revenues	482,064	377,289
Cost of revenues	(260,532)	(209,756)
Gross profit	221,532	167,533
Interest income	6,957	6,314
Other gains, net	57,131	19,689
Selling and marketing expenses	(33,758)	(21,396)
General and administrative expenses	(67,625)	(53,446)
Operating profit	184,237	118,694
Finance costs, net	(7,887)	(7,613)
Share of profit/(loss) of associates and joint ventures	3,672	(1,681)
Profit before income tax	180,022	109,400
Income tax expense	(19,897)	(13,512)
Profit for the year	160,125	95,888
Attributable to:		
Equity holders of the Company	159,847	93,310
Non-controlling interests	278	2,578
	160,125	95,888
Non-IFRS profit attributable to equity holders of the Company	122,742	94,351



Management Discussion and Analysis

Revenues. Revenues increased by 28% to RMB482.1 billion for the year ended 31 December 2020 on a year-on-year basis. The following table sets forth our revenues by line of business for the year ended 31 December 2020 and 2019:

	Year ended 31 December		2019	
	2020	% of total	2019	% of total
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	264,212	55%	199,991	53%
Online Advertising	82,271	17%	68,377	18%
FinTech and Business Services	128,086	27%	101,355	27%
Others	7,495	1%	7,566	2%
Total revenues	<u>482,064</u>	<u>100%</u>	<u>377,289</u>	<u>100%</u>

- Revenues from our VAS business increased by 32% to RMB264.2 billion on a year-on-year basis. Online games revenues grew by 36% to RMB156.1 billion. The increase was primarily driven by revenue growth from our smart phone games in both domestic and overseas markets, particularly from titles such as Peacekeeper Elite, Honour of Kings and PUBG Mobile, as well as the full year effect of Supercell consolidation, while our PC client games revenues decreased slightly. Total smart phone games revenues (including smart phone games revenues attributable to our social networks business) were RMB146.6 billion and PC client games revenues were RMB44.6 billion for the year ended 31 December 2020. Social networks revenues increased by 27% to RMB108.1 billion. The increase was primarily due to the consolidation of HUYA's live broadcast services, revenue growth from our music and video subscription services, as well as growth from our in-game virtual item sales.
- Revenues from our Online Advertising business increased by 20% to RMB82.3 billion on a year-on-year basis, benefitting from our platform integration and upgraded algorithms, along with rising demand from advertiser categories such as education, Internet services and eCommerce platforms. Social and others advertising revenues grew by 29% to RMB68.0 billion. The increase was primarily driven by higher advertising revenues from Weixin (primarily Weixin Moments) as a result of its increased inventories, as well as revenue contributions from our mobile advertising network due to our video format advertisements. Media advertising revenues decreased by 8% to RMB14.3 billion. The decrease mainly reflected lower advertising revenues from Tencent Video amid the challenging macro environment and delays to content productions and launches, partly offset by advertising revenue growth from our music streaming apps.
- Revenues from FinTech and Business Services increased by 26% to RMB128.1 billion on a year-on-year basis. The increase primarily reflected higher revenues from commercial payment, wealth management and Cloud Services, driven by our expanded user base and business scale.



Management Discussion and Analysis

Cost of revenues. Cost of revenues increased by 24% to RMB260.5 billion for the year ended 31 December 2020 on a year-on-year basis. The increase was mainly due to greater channel and distribution costs, server and bandwidth costs, as well as transaction costs of FinTech services. As a percentage of revenues, cost of revenues decreased to 54% for the year ended 31 December 2020 from 56% for the year ended 31 December 2019. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2020 and 2019:

	Year ended 31 December			
	2020	% of	2019	% of
	Amount	segment	Amount	segment
		revenues		revenues
	(RMB in millions, unless specified)			
VAS	121,287	46%	94,086	47%
Online Advertising	40,011	49%	34,860	51%
FinTech and Business Services	91,835	72%	73,831	73%
Others	7,399	99%	6,979	92%
Total cost of revenues	<u>260,532</u>		<u>209,756</u>	

- Cost of revenues for VAS increased by 29% to RMB121.3 billion. The increase was mainly driven by greater content costs for live broadcast and video subscription services, as well as costs for smart phone games, including those associated with the consolidations of Supercell and HUYA.
- Cost of revenues for Online Advertising increased by 15% year-on-year to RMB40.0 billion. The increase was mainly due to greater traffic acquisition, server and bandwidth costs, partly offset by lower content costs associated with variety shows and sports events.
- Cost of revenues for FinTech and Business Services increased by 24% year-on-year to RMB91.8 billion. The increase primarily reflected greater transaction costs resulting from TPV growth, as well as higher server and bandwidth costs due to expansion of our Cloud Services business.

Other gains, net. We recorded net other gains of RMB57.1 billion for the year ended 31 December 2020, which were primarily non-IFRS adjustment items including net fair value gains arising from increased valuations for certain investee companies in verticals such as social media, online games, electric vehicles and eCommerce, as well as net gains on deemed disposals arising from the capital activities of certain investee companies in the eCommerce and online games verticals, partly offset by impairment provisions reflecting revised valuations of certain investee companies.



Management Discussion and Analysis

Selling and marketing expenses. Selling and marketing expenses increased by 58% to RMB33.8 billion for the year ended 31 December 2020 on a year-on-year basis. The increase primarily reflected greater marketing spending for online games and the impact of recent consolidations, as well as marketing to support long-term strategic initiatives including short-form video, cloud-based healthcare solutions, online education and remote work. As a percentage of revenues, selling and marketing expenses increased to 7% for the year ended 31 December 2020 from 6% for the year ended 31 December 2019.

General and administrative expenses. General and administrative expenses increased by 27% to RMB67.6 billion for the year ended 31 December 2020 on a year-on-year basis. The increase was primarily driven by greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses were 14% for the year ended 31 December 2020, broadly stable year-on-year.

Finance costs, net. Net finance costs increased by 4% to RMB7.9 billion for the year ended 31 December 2020 on a year-on-year basis. The increase primarily reflected foreign exchange losses recognised this year compared to gains for previous year, partially offset by lower interest expenses resulting from reduced average cost of funds.

Share of profit/loss of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB3.7 billion for the year ended 31 December 2020, compared to share of losses of RMB1.7 billion for the year ended 31 December 2019. The change was substantially due to non-IFRS adjustment items of certain associates and improved performance of certain associates in verticals such as eCommerce.

Income tax expense. Income tax expense increased by 47% to RMB19.9 billion on a year-on-year basis. The increase was mainly driven by higher taxable income.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 71% to RMB159.8 billion for the year ended 31 December 2020 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 30% to RMB122.7 billion for the year ended 31 December 2020.



Management Discussion and Analysis

FOURTH QUARTER OF 2020 COMPARED TO FOURTH QUARTER OF 2019

The following table sets forth the comparative figures for the fourth quarter of 2020 and the fourth quarter of 2019:

	Unaudited	
	Three months ended	
	31 December	31 December
	2020	2019
	(RMB in millions)	
Revenues	133,669	105,767
Cost of revenues	(74,788)	(59,659)
Gross profit	58,881	46,108
Interest income	1,708	1,580
Other gains, net	32,936	3,630
Selling and marketing expenses	(10,033)	(6,712)
General and administrative expenses	(19,779)	(16,002)
Operating profit	63,713	28,604
Finance costs, net	(2,253)	(2,767)
Share of profit/(loss) of associates and joint ventures	1,618	(1,328)
Profit before income tax	63,078	24,509
Income tax expense	(3,709)	(2,137)
Profit for the period	59,369	22,372
Attributable to:		
Equity holders of the Company	59,302	21,582
Non-controlling interests	67	790
	59,369	22,372
Non-IFRS profit attributable to equity holders of the Company	33,207	25,484



Management Discussion and Analysis

Revenues. Revenues increased by 26% to RMB133.7 billion for the fourth quarter of 2020 on a year-on-year basis. The following table sets forth our revenues by line of business for the fourth quarter of 2020 and the fourth quarter of 2019:

	Unaudited			
	Three months ended			
	31 December 2020		31 December 2019	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	66,979	50%	52,308	50%
Online Advertising	24,655	18%	20,225	19%
FinTech and Business Services	38,494	29%	29,920	28%
Others	3,541	3%	3,314	3%
Total revenues	<u>133,669</u>	<u>100%</u>	<u>105,767</u>	<u>100%</u>

- Revenues from VAS increased by 28% to RMB67.0 billion for the fourth quarter of 2020 on a year-on-year basis. Online games revenues grew by 29% to RMB39.1 billion, among which our international games revenues were RMB9.8 billion, increased by 43% on a year-on-year basis. The increase primarily reflected revenue contributions from our smart phone games including Peacekeeper Elite, Honour of Kings, PUBG Mobile and recently launched titles such as Moonlight Blade Mobile. Total smart phone games revenues (including smart phone games revenues attributable to our social networks business) were RMB36.7 billion and PC client games revenues were RMB10.2 billion for the fourth quarter of 2020. Social networks revenues increased by 27% to RMB27.9 billion. The increase was mainly driven by revenue growth from digital content services including the consolidation impact of HUYA's live broadcast services, our music and video subscription services, as well as from in-game virtual item sales.
- Revenues from Online Advertising increased by 22% to RMB24.7 billion for the fourth quarter of 2020, as a result of rising demand from advertiser categories such as education, eCommerce platforms and fast-moving consumer goods, as well as consolidation of Bitauto's advertising revenue. Social and others advertising revenues grew by 25% to RMB20.4 billion. The increase primarily reflected more advertiser demand for Weixin Moments inventory, and for customised in-app advertising solutions offered by our mobile advertising network. Media advertising revenues increased by 8% to RMB4.3 billion. The increase was mainly driven by our music streaming apps, as well as contributions from Tencent Video due to airing of popular drama series.
- Revenues from FinTech and Business Services increased by 29% to RMB38.5 billion for the fourth quarter of 2020 on a year-on-year basis. The increase was primarily due to revenue growth from commercial payment and wealth management services resulting from increased volume of transactions and value per transaction. Our Business Services revenues experienced robust year-on-year growth as we deepened our market presence in verticals such as municipal services, financial services and Internet services, and as we began to consolidate Bitauto's Business Services revenue during the fourth quarter of 2020.



Management Discussion and Analysis

Cost of revenues. Cost of revenues increased by 25% to RMB74.8 billion for the fourth quarter of 2020 on a year-on-year basis. The increase was mainly driven by greater channel and distribution costs, content costs, as well as transaction costs of FinTech services. As a percentage of revenues, cost of revenues was 56% for the fourth quarter of 2020, broadly stable compared to the fourth quarter of 2019. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2020 and the fourth quarter of 2019:

	Unaudited			
	Three months ended			
	31 December 2020		31 December 2019	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	32,512	49%	26,120	50%
Online Advertising	11,520	47%	9,241	46%
FinTech and Business Services	27,538	72%	21,520	72%
Others	3,218	91%	2,778	84%
Total cost of revenues	<u>74,788</u>		<u>59,659</u>	

- Cost of revenues for VAS increased by 24% to RMB32.5 billion for the fourth quarter of 2020 on a year-on-year basis. The increase mainly reflected greater content costs for digital content services including the consolidation impact of HUYA's live broadcast services, as well as costs for smart phone games arising from revenue growth.
- Cost of revenues for Online Advertising increased by 25% to RMB11.5 billion for the fourth quarter of 2020 on a year-on-year basis. The increase was mainly driven by greater traffic acquisition costs associated with revenue growth from our mobile advertising network, as well as greater server and bandwidth costs.
- Cost of revenues for FinTech and Business Services increased by 28% to RMB27.5 billion for the fourth quarter of 2020 on a year-on-year basis. The increase was primarily due to greater transaction costs as TPV grew, and increased spending on servers and bandwidth to support enlarged scale of our Cloud Services business.



Management Discussion and Analysis

Other gains, net. We recorded net other gains of RMB32.9 billion for the fourth quarter of 2020, which were mainly non-IFRS adjustment items including net fair value gains due to increased valuations of investee companies in verticals such as social media, eCommerce and online games, as well as net gains on deemed disposals of certain investee companies, partly offset by impairment provisions against certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 49% to RMB10.0 billion for the fourth quarter of 2020 on a year-on-year basis. The increase was mainly due to greater marketing spending on online games, Business Services, and digital content services, including those associated with the consolidation of Bitauto and HUYA. As a percentage of revenues, selling and marketing expenses increased to 8% for the fourth quarter of 2020 from 6% for the fourth quarter of 2019.

General and administrative expenses. General and administrative expenses increased by 24% to RMB19.8 billion for the fourth quarter of 2020 on a year-on-year basis. The increase primarily reflected greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses were 15% for the fourth quarter of 2020, broadly stable compared to the fourth quarter of 2019.

Finance costs, net. Net finance costs decreased by 19% to RMB2.3 billion for the fourth quarter of 2020 on a year-on-year basis. The decrease was primarily due to lower interest expenses as a result of reduced average cost of funds.

Share of profit/loss of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB1.6 billion for the fourth quarter of 2020, compared to share of losses of RMB1.3 billion for the fourth quarter of 2019. The change was partly driven by non-IFRS adjustment items of certain associates in eCommerce, and partly due to improved performance of certain investee companies in verticals such as eCommerce and online games.

Income tax expense. Income tax expense increased by 74% to RMB3.7 billion for the fourth quarter of 2020 on a year-on-year basis.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 175% to RMB59.3 billion for the fourth quarter of 2020 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 30% to RMB33.2 billion for the fourth quarter of 2020.



Management Discussion and Analysis

FOURTH QUARTER OF 2020 COMPARED TO THIRD QUARTER OF 2020

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

	Unaudited	
	Three months ended	
	31 December	30 September
	2020	2020
	(RMB in millions)	
Revenues	133,669	125,447
Cost of revenues	(74,788)	(68,800)
Gross profit	58,881	56,647
Interest income	1,708	1,864
Other gains, net	32,936	11,551
Selling and marketing expenses	(10,033)	(8,920)
General and administrative expenses	(19,779)	(17,189)
Operating profit	63,713	43,953
Finance costs, net	(2,253)	(1,945)
Share of profit of associates and joint ventures	1,618	2,630
Profit before income tax	63,078	44,638
Income tax expense	(3,709)	(5,739)
Profit for the period	59,369	38,899
Attributable to:		
Equity holders of the Company	59,302	38,542
Non-controlling interests	67	357
	59,369	38,899
Non-IFRS profit attributable to equity holders of the Company	33,207	32,303



Management Discussion and Analysis

Revenues. Revenues increased by 7% to RMB133.7 billion for the fourth quarter of 2020 on a quarter-on-quarter basis.

- Revenues from VAS decreased by 4% to RMB67.0 billion for the fourth quarter of 2020. Online games revenues reduced by 6% to RMB39.1 billion. The sequential decline was mainly driven by lower revenues from domestic smart phone games and PC client games due to normalised user activities and seasonality, partly offset by revenue contributions from newly launched titles including Moonlight Blade Mobile. Social networks revenues decreased by 2% to RMB27.9 billion. The decrease mainly reflected revenue decline from in-game virtual item sales, partly offset by revenue growth from digital content services including live broadcast services.
- Revenues from Online Advertising increased by 15% to RMB24.7 billion for the fourth quarter of 2020. Social and others advertising revenues grew by 15% to RMB20.4 billion. The increase mainly reflected revenue growth from our mobile advertising network and Weixin Moments, resulting from positive seasonality of eCommerce marketing efforts, as well as the consolidation of Bitauto's advertising revenue. Media advertising revenues increased by 19% to RMB4.3 billion. The increase was primarily driven by greater video advertising revenues due to the popularity of certain drama series released in the fourth quarter, as well as advertising revenues from music streaming apps.
- Revenues from FinTech and Business Services increased by 16% to RMB38.5 billion for the fourth quarter of 2020. The increase was mainly driven by higher revenues from Cloud Services business due to deployment of more on-premise projects during the fourth quarter, particularly in the municipal and healthcare sectors, as well as consolidation of Bitauto's Business Services revenue. Revenues from payment related services also contributed to the sequential growth, as both online and offline TPV grew in sectors such as eCommerce, retail and municipal services.

Cost of revenues. Cost of revenues increased by 9% to RMB74.8 billion for the fourth quarter of 2020 on quarter-on-quarter basis. The increase was mainly driven by greater content costs, transaction costs of FinTech services, and Cloud Services project deployment costs. As a percentage of revenues, cost of revenues increased to 56% for the fourth quarter of 2020 from 55% for the third quarter of 2020.

- Cost of revenues for VAS decreased by 2% to RMB32.5 billion for the fourth quarter of 2020. The decrease mainly reflected lower content costs for video subscription services as a result of airing fewer sports events and lower costs for smart phone games, partly offset by increased content costs for live broadcast services and eSports events.
- Cost of revenues for Online Advertising increased by 10% to RMB11.5 billion for the fourth quarter of 2020. The increase was primarily driven by greater traffic acquisition costs due to revenue growth from our advertising network.
- Cost of revenues for FinTech and Business Services increased by 15% to RMB27.5 billion for the fourth quarter of 2020. The increase was mainly due to greater transaction costs for payment-related services, and higher Cloud Services project deployment costs.



Management Discussion and Analysis

Selling and marketing expenses. Selling and marketing expenses increased by 12% to RMB10.0 billion for the fourth quarter of 2020 on a quarter-on-quarter basis. The increase was mainly due to greater marketing spending on online games and Business Services, and the consolidation of Bitauto.

General and administrative expenses. General and administrative expenses increased by 15% to RMB19.8 billion for the fourth quarter of 2020 on a quarter-on-quarter basis. The increase mainly reflected greater R&D expenses and staff costs.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 54% to RMB59.3 billion for the fourth quarter of 2020 on a quarter-on-quarter basis. Non-IFRS profit attributable to equity holders of the Company increased by 3% to RMB33.2 billion.

OTHER FINANCIAL INFORMATION

	Unaudited			Year ended	
	31 December	30 September	31 December	31 December	31 December
	2020	2020	2019	2020	2019
(RMB in millions, unless specified)					
EBITDA (a)	42,872	45,055	35,675	170,680	137,268
Adjusted EBITDA (a)	46,533	47,849	38,572	183,314	147,395
Adjusted EBITDA margin (b)	35%	38%	36%	38%	39%
Interest and related expenses	1,766	1,855	2,348	7,449	7,690
Net cash/(debt) (c)	11,063	6,363	(15,552)	11,063	(15,552)
Capital expenditures (d)	9,659	8,684	16,869	33,960	32,369

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. 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 cash/(debt) represents period end balance and is calculated as cash and cash equivalents, plus term deposits and others, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets (excluding 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			Year ended	
	31 December 2020	Three months ended 30 September 2020	31 December 2019	31 December 2020	31 December 2019
		(RMB in millions, unless specified)			
Operating profit	63,713	43,953	28,604	184,237	118,694
Adjustments:					
Interest income	(1,708)	(1,864)	(1,580)	(6,957)	(6,314)
Other gains, net	(32,936)	(11,551)	(3,630)	(57,131)	(19,689)
Depreciation of property, plant and equipment and investment properties	4,939	4,600	3,549	17,685	12,574
Depreciation of right-of-use assets	1,036	964	893	3,773	3,049
Amortisation of intangible assets	7,828	8,953	7,839	29,073	28,954
EBITDA	42,872	45,055	35,675	170,680	137,268
Equity-settled share-based compensation	3,661	2,794	2,897	12,634	10,127
Adjusted EBITDA	46,533	47,849	38,572	183,314	147,395

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.



Management Discussion and Analysis

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the fourth quarter of 2020 and 2019, the third quarter of 2020, and the years ended 31 December 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

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 (e)	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%

Unaudited three months ended 30 September 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 (e)	Non-IFRS	
		(RMB in millions, unless specified)					
Operating profit	43,953	3,059	(8,703)	905	(1,098)	-	38,116
Profit for the period	38,899	3,770	(10,099)	2,005	(973)	(277)	33,325
Profit attributable to equity holders	38,542	3,517	(10,133)	1,620	(1,026)	(217)	32,303
EPS (RMB per share)							
- basic	4.059						3.402
- diluted	3.964						3.314
Operating margin	35%						30%
Net margin	31%						27%



Management Discussion and Analysis

Unaudited three months ended 31 December 2019

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

Year ended 31 December 2020

	Adjustments						Non-IFRS
	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 (e)	
	(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%



Management Discussion and Analysis

Year ended 31 December 2019

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

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) Income tax effects of non-IFRS adjustments



INVESTMENTS HELD

As at 31 December 2020, our investment portfolio amounted to approximately RMB690,886 million (31 December 2019: RMB439,551 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.

Changes in respective items in the consolidated statement of financial position have been disclosed in the notes to the consolidated financial information 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 stakes in listed investee companies (excluding subsidiaries) amounted to RMB1,204,931 million as at 31 December 2020 (31 December 2019: RMB419,818 million).

As at 31 December 2020, we were interested in approximately 250 million shares with a value of approximately RMB81.6 billion in Snap Inc., a company operating a social media platform, representing approximately 17% of its total outstanding shares, which accounted for approximately 6% of the Group’s total assets as at 31 December 2020. The cost of our investment was approximately RMB20.4 billion. This investment is measured at fair value through other comprehensive income. During the year ended 31 December 2020, the Group did not receive any dividends from Snap Inc., and there were realised gains of approximately RMB243 million from partial disposal and unrealised gains of approximately RMB56.8 billion from changes in fair value under equity. The Group does not have nor does it exercise any managerial influence in Snap Inc. and regards this as a passive investment. Except Snap Inc., there was no other individual investment with a carrying value of 5% or more of the Group’s total assets as at 31 December 2020.

Save as disclosed herein, there are no material changes in our investment portfolio affecting the Company’s performance that need to be disclosed under paragraph 32 of Appendix 16 to the Listing Rules.



Management Discussion and Analysis

Return from our investment portfolio amounted to RMB54,015 million for the year ended 31 December 2020, with an increase of 288% compared to last year. Details of our return from investment portfolio are as follows:

Income of Principal Investment (Classified by nature of income)	2020 RMB'Million	2019 RMB'Million
Dividend income	1,765	1,014
Net gains on disposals and deemed disposals of investee companies	24,390	8,492
Net fair value gains	38,909	11,158
Impairment provision for investee companies, goodwill and other intangible assets from acquisitions	(11,422)	(4,006)
Share of profit/(loss) of associates and joint ventures	3,672	(1,681)
Amortisation of intangible assets resulting from acquisitions	(3,299)	(1,051)

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 positions as at 31 December 2020 and 30 September 2020 were as follows:

	Audited 31 December 2020	Unaudited 30 September 2020
	(RMB in millions)	
Cash and cash equivalents	152,798	152,491
Term deposits and others	106,709	113,401
	259,507	265,892
Borrowings	(126,387)	(132,154)
Notes payable	(122,057)	(127,375)
Net cash	11,063	6,363
Fair value of our stakes in listed investee companies (excluding subsidiaries)	1,204,931	890,730



Management Discussion and Analysis

As at 31 December 2020, the Group had net cash of RMB11.1 billion, compared to net cash of RMB6.4 billion as at 30 September 2020. The sequential improvement was mainly due to free cash flow generation and foreign exchange effects, partly offset by a net cash outflow for M&A activities.

For the fourth quarter of 2020, the Group had free cash flow of RMB27.7 billion. This was a result of net cash flow generated from operating activities of RMB48.9 billion, offset by payments for capital expenditures of RMB12.3 billion, payments for media content of RMB7.7 billion, and payments for lease liabilities of RMB1.2 billion.



Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in Note 47 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 are 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 165 of this annual report.

The directors have recommended the payment of a final dividend of HKD1.60 per share for the year ended 31 December 2020. The dividend is expected to be payable on 7 June 2021 to the shareholders whose names appear on the register of members of the Company on 27 May 2021. The total dividend for the year under review is HKD1.60 per share.

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 2020, the Company had distributable reserves amounting to RMB45,952 million (2019: RMB34,169 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 169 to 172, Note 32, Note 33 and Note 45 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, particulars of important events affecting the Group that have occurred since the end of the financial year 2020 and an indication of likely future development in the business of the Group as well as the proposed dividend for the year ended 31 December 2020 are set out in the "Chairman's Statement" on pages 4 to 9 of this annual report. An analysis using financial key performance indicators is set out in the "Management Discussion and Analysis" on pages 10 to 27 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 102 to 154 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 102 to 154 and the "Corporate Governance Report" on pages 72 to 101 as well as on page 69 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 72 to 101 of this annual report. All such discussions form part of this report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 32 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2020 are set out in Note 47 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings and notes payable are set out in Note 35 and Note 36 to the consolidated financial statements respectively.

DONATION

The donation made by the Group in the year was RMB2,600 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.



Directors' Report

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2020.

ISSUANCE OF DEBT SECURITIES

In June 2020, the Company issued four tranches of senior notes under the Global Medium Term Note Programme for the Company's general corporate purposes.

In September 2020, TME issued two tranches of senior notes for its general corporate purposes.

Details of the issuance of debt securities are set out in Note 36 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 depository 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 2020, 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 2020, China Literature had used:

- approximately RMB1,843.4 million for expanding its online reading business and sales and marketing activities;
- approximately RMB1,843.4 million for expanding its involvement in the development of derivative entertainment products adapted from its online literary titles;
- approximately RMB1,843.4 million for funding its potential investments, acquisitions and strategic alliances; and
- approximately RMB614.5 million for working capital and general corporate purposes.

As at 31 December 2020, China Literature had fully utilised all net proceeds from its IPO.

HUYA

The American depository 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 2020, HUYA had used all net proceeds from its IPO and USD1 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.



Directors' Report

As at 31 December 2020, there were a total of 20,122,195 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 31 December 2020	Exercise price HKD	Exercise period
		As at 1 January 2020	Granted during the year	Exercised during the year			
Lau Chi Ping Martin	25 March 2014	5,000,000	–	5,000,000 (Note 4)	–	114.52	25 March 2015 to 24 March 2021 (Note 1)
	21 March 2016	3,750,000	–	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 2)
	24 March 2017	5,250,000	–	–	5,250,000	225.44	24 March 2018 to 23 March 2024 (Note 2)
	9 April 2018	3,215,800	–	–	3,215,800	410.00	9 April 2019 to 8 April 2025 (Note 2)
	4 April 2019	3,506,580	–	–	3,506,580	376.00	4 April 2020 to 3 April 2026 (Note 2)
	20 March 2020	–	4,399,815 (Note 3)	–	4,399,815	359.60	20 March 2021 to 19 March 2027 (Note 2)
	Total:	<u>20,722,380</u>	<u>4,399,815</u>	<u>5,000,000</u>	<u>20,122,195</u>		

Note:

- For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- The closing price immediately before the date on which the options were granted on 20 March 2020 was HKD343 per share.
- In relation to the exercise of 5,000,000 share options, 3,999,826 shares were issued. The automatic deduction of 1,000,174 shares represents the consideration payable for the exercise of 5,000,000 share options.
- No options were cancelled or lapsed during the year.



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 2020 are as follows:

Date of grant	Number of share options				As at 31 December 2020	Exercise price HKD	Exercise period
	As at 1 January 2020	Granted during the year	Exercised during the year (Note 19)	Lapsed/ forfeited during the year			
25 Mar 2014	2,500,000	–	2,500,000	–	–	114.52	25 Mar 2015 to 24 Mar 2021 (Note 2)
25 Mar 2014	2,795,000	–	2,795,000	–	–	114.52	25 Mar 2015 to 24 Mar 2021 (Note 3)
22 May 2014	32,500	–	32,500	–	–	112.30	22 May 2015 to 21 May 2021 (Note 2)
10 Jul 2014	518,714	–	198,726	–	319,988	124.30	10 Jul 2015 to 9 Jul 2021 (Note 4)
12 Dec 2014	40,350	–	–	–	40,350	116.40	12 Dec 2016 to 11 Dec 2021 (Note 5)
2 Apr 2015	525,000	–	310,000	–	215,000	149.80	2 Apr 2016 to 1 Apr 2022 (Note 4)
10 Jul 2015	442,434	–	37,614	–	404,820	148.90	10 Jul 2016 to 9 Jul 2022 (Note 4)
21 Mar 2016	6,125,000	–	535,000	–	5,590,000	158.10	21 Mar 2017 to 20 Mar 2023 (Note 4)
6 Jul 2016	1,032,757	–	265,971	4,425	762,361	174.86	6 Jul 2017 to 5 Jul 2023 (Note 4)
24 Mar 2017	1,093,295	–	150,905	25	942,365	225.44	24 Mar 2018 to 23 Mar 2024 (Note 1)
24 Mar 2017	21,253,750	–	1,093,500	–	20,160,250	225.44	24 Mar 2018 to 23 Mar 2024 (Note 4)
10 Jul 2017	13,405	–	8,936	–	4,469	272.36	10 Jul 2018 to 9 Jul 2024 (Note 2)
10 Jul 2017	7,814,593	–	1,525,517	144,135	6,144,941	272.36	10 Jul 2018 to 9 Jul 2024 (Note 4)
10 Jul 2017	25,140	–	6,694	–	18,446	272.36	10 Jul 2019 to 9 Jul 2024 (Note 5)
23 Nov 2017	89,565	–	–	18,375	71,190	419.60	23 Nov 2018 to 22 Nov 2024 (Note 2)
16 Jan 2018	155,050	–	11,000	–	144,050	444.20	16 Jan 2019 to 15 Jan 2025 (Note 2)
9 Apr 2018	2,077,635	–	128,720	–	1,948,915	410.00	9 Apr 2019 to 8 Apr 2025 (Note 1)
9 Apr 2018	235,515	–	–	43,960	191,555	410.00	9 Apr 2019 to 8 Apr 2025 (Note 2)



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Date of grant	Number of share options				As at 31 December 2020	Exercise price HKD	Exercise period
	As at 1 January 2020	Granted during the year	Exercised during the year (Note 19)	Lapsed/ forfeited during the year			
9 Apr 2018	16,692,585	–	53,461	7,998	16,631,126	410.00	9 Apr 2019 to 8 Apr 2025 (Note 4)
24 May 2018	26,390	–	–	–	26,390	407.00	24 May 2019 to 23 May 2025 (Note 2)
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	5,020,050	–	723,027	203,455	4,093,568	386.60	6 Jul 2019 to 5 Jul 2025 (Note 4)
6 Jul 2018	8,050	–	–	–	8,050	386.60	6 Jul 2020 to 5 Jul 2025 (Note 5)
6 Jul 2018	34,230	–	–	–	34,230	386.60	6 Jul 2021 to 5 Jul 2025 (Note 6)
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 9)
4 Apr 2019	406,875	–	117,185	718	288,972	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 4)
4 Apr 2019	17,500,000	–	–	–	17,500,000	376.00	4 Apr 2024 to 3 Apr 2026 (Note 7)
8 Jul 2019	665	–	–	–	665	359.04	8 Jul 2020 to 7 Jul 2026 (Note 1)
8 Jul 2019	2,152,780	–	135,714	64,710	1,952,356	359.04	8 Jul 2020 to 7 Jul 2026 (Note 4)
8 Jul 2019	12,005	–	–	–	12,005	359.04	8 Jul 2021 to 7 Jul 2026 (Note 5)
23 Aug 2019	29,610	–	9,870	–	19,740	334.20	15 Aug 2020 to 22 Aug 2026 (Note 11)
23 Aug 2019	67,795	–	–	–	67,795	334.20	15 Aug 2020 to 22 Aug 2026 (Note 9)
23 Aug 2019	213,990	–	–	–	213,990	334.20	15 Aug 2020 to 22 Aug 2026 (Note 8)
2 Dec 2019	52,745	–	17,581	–	35,164	335.84	15 Nov 2020 to 1 Dec 2026 (Note 11)
8 Jan 2020	–	111,510	–	–	111,510	382.00	15 Dec 2020 to 7 Jan 2027 (Note 11 and Note 12)
8 Jan 2020	–	26,250	–	–	26,250	382.00	15 Jan 2021 to 7 Jan 2027 (Note 11 and Note 12)



Date of grant	Number of share options				As at 31 December 2020	Exercise price HKD	Exercise period
	As at 1 January 2020	Granted during the year	Exercised during the year (Note 19)	Lapsed/ forfeited during the year			
20 Mar 2020	–	391,909	–	1,379	390,530	359.60	21 Jan 2021 to 19 Mar 2027 (Note 10 and Note 13)
20 Mar 2020	–	2,584,820	–	–	2,584,820	359.60	20 Mar 2021 to 19 Mar 2027 (Note 9 and Note 13)
22 May 2020	–	49,840	–	–	49,840	429.52	15 May 2021 to 21 May 2027 (Note 11 and Note 14)
10 Jul 2020	–	1,441,430	–	13,248	1,428,182	546.50	5 Jul 2021 to 9 Jul 2027 (Note 9 and Note 15)
10 Jul 2020	–	3,507	–	–	3,507	546.50	5 Jul 2022 to 9 Jul 2027 (Note 9 and Note 15)
21 Aug 2020	–	24,465	–	–	24,465	518.00	15 Jul 2021 to 20 Aug 2027 (Note 10 and Note 16)
21 Aug 2020	–	10,535	–	–	10,535	518.00	15 Aug 2021 to 20 Aug 2027 (Note 11 and Note 16)
21 Aug 2020	–	4,964	–	–	4,964	518.00	15 Aug 2021 to 20 Aug 2027 (Note 9 and Note 16)
23 Nov 2020	–	110,280	–	–	110,280	586.00	15 Oct 2021 to 22 Nov 2027 (Note 10 and Note 17)
23 Nov 2020	–	8,855	–	–	8,855	586.00	15 Oct 2021 to 22 Nov 2027 (Note 11 and Note 17)
23 Nov 2020	–	16,825	–	–	16,825	586.00	15 Nov 2021 to 22 Nov 2027 (Note 9 and Note 17)
23 Nov 2020	–	2,681	–	2,681	–	586.00	15 Dec 2021 to 22 Nov 2027 (Note 10 and Note 17)
23 Nov 2020	–	12,068	–	12,068	–	586.00	15 Dec 2021 to 22 Nov 2027 (Note 11 and Note 17)
23 Dec 2020	–	14,028	–	–	14,028	575.80	15 Dec 2021 to 22 Dec 2027 (Note 10 and Note 18)
23 Dec 2020	–	105,207	–	–	105,207	575.80	15 Dec 2021 to 22 Dec 2027 (Note 11 and Note 18)
Total:	91,374,613	4,919,174	10,656,921	517,177	85,119,689		

Note:

- For options granted with exercisable date determined based on the grant date of options, the first 50% of the total options can be exercised 1 year after the grant date, and the remaining 50% of the total options will become exercisable in the subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options can be exercised 1 year after the grant date, and each 33.33% (one-third) of the total options will become exercisable in each subsequent year.



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3. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will 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 can be exercised 1 year after the grant date, and each 25% of the total options will 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 can be exercised 2 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
6. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 3 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
7. For options granted with exercisable date determined based on the grant date of options, 100% of the total options can be exercised 5 years after the grant date.
8. Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
9. The first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
10. The first 50% of the total options can be exercised on the dates as specified in the relevant grant letters, and the remaining 50% of the total options will become exercisable in the subsequent year.
11. The first 33.33% (one-third) of the total options can be exercised on the dates as specified in the relevant grant letters, and each 33.33% (one-third) of the total options will become exercisable in each subsequent year.
12. The closing price immediately before the date on which the options were granted on 8 January 2020 was HKD385.6 per share.
13. The closing price immediately before the date on which the options were granted on 20 March 2020 was HKD343 per share.
14. The closing price immediately before the date on which the options were granted on 22 May 2020 was HKD433.4 per share.
15. The closing price immediately before the date on which the options were granted on 10 July 2020 was HKD563 per share.
16. The closing price immediately before the date on which the options were granted on 21 August 2020 was HKD508 per share.
17. The closing price immediately before the date on which the options were granted on 23 November 2020 was HKD588 per share.
18. The closing price immediately before the date on which the options were granted on 23 December 2020 was HKD572.5 per share.
19. The weighted average closing price immediately before the date on which the options were exercised was HKD534.3 per share.



Details of movements of share options granted to employees and certain external consultants under the share option schemes adopted by TME, a subsidiary of the Group, during the year ended 31 December 2020 are as follows:

Date of grant	Number of share options				As at 31 December 2020	Exercise price USD	Exercise period
	As at 1 January 2020	Granted during the year (Note 7)	Exercised during the year (Note 6)	Lapsed/ forfeited during the year			
Employees							
1 Mar 2015	1,407,820	–	947,600	–	460,220	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	1,409,162	–	991,752	–	417,410	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
30 Mar 2015	1,953,472	–	1,252,590	–	700,882	0.27	30 Mar 2016 to 29 Mar 2025 (Note 1)
1 Oct 2015	245,826	–	120,726	–	125,100	0.27	1 Oct 2016 to 30 Sep 2025 (Note 1)
31 Dec 2015	1,529,224	–	919,058	10,508	599,658	0.27	31 Dec 2016 to 30 Dec 2025 (Note 1)
31 Dec 2015	90,302	–	90,302	–	–	0.000076	31 Dec 2016 to 30 Dec 2025 (Note 1)
1 Mar 2016	255,377	–	147,488	–	107,889	0.27	1 Mar 2017 to 28 Feb 2026 (Note 1)
31 Mar 2016	156,498	–	57,560	–	98,938	0.27	31 Mar 2017 to 30 Mar 2026 (Note 1)
30 Jun 2016	163,272	–	81,634	–	81,638	0.000076	30 Jun 2017 to 29 Jun 2026 (Note 1)
30 Jun 2016	5,952,880	–	2,853,042	36,474	3,063,364	0.27	30 Jun 2017 to 29 Jun 2026 (Note 1)
16 Jun 2017	1,346,498	–	978,606	–	367,892	2.32	5 Jul 2017 to 15 Jun 2027 (Note 2)
16 Jun 2017	6,543,470	–	4,172,606	–	2,370,864	2.32	31 Mar 2018 to 15 Jun 2027 (Note 2)
31 Aug 2017	4,513,508	–	1,701,032	63,674	2,748,802	0.27	31 Aug 2018 to 30 Aug 2027 (Note 1)
20 Dec 2017	5,551,752	–	1,577,996	–	3,973,756	2.32	20 Dec 2018 to 19 Dec 2027 (Note 2)
16 Apr 2018	975,000	–	325,000	–	650,000	4.04	16 Apr 2019 to 15 Apr 2028 (Note 2)
17 Oct 2018	2,319,000	–	362,500	135,000	1,821,500	7.14	12 Jul 2019 to 16 Oct 2028 (Note 2)



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Date of grant	Number of share options				As at 31 December 2020	Exercise price USD	Exercise period
	As at 1 January 2020	Granted during the year (Note 7)	Exercised during the year (Note 6)	Lapsed/ forfeited during the year			
Employees							
17 Oct 2018	3,397,500	–	551,500	–	2,846,000	7.14	12 Jul 2020 to 16 Oct 2028 (Note 3)
14 Jun 2019	1,993,780	–	356,778	–	1,637,002	7.05	14 Jun 2020 to 13 Jun 2029 (Note 2)
12 Jun 2020	–	4,333,800	–	48,230	4,285,570	6.20	12 Jun 2021 to 11 Jun 2030 (Note 2 and Note 5)
15 Aug 2020	–	417,580	–	208,790	208,790	7.56	15 Aug 2021 to 14 Aug 2030 (Note 4 and Note 5)
15 Oct 2020	–	71,930	–	–	71,930	7.17	15 Oct 2021 to 14 Oct 2030 (Note 4 and Note 5)
15 Dec 2020	–	169,080	–	–	169,080	9.53	15 Dec 2021 to 14 Dec 2030 (Note 4 and Note 5)
Sub-total:	<u>39,804,341</u>	<u>4,992,390</u>	<u>17,487,770</u>	<u>502,676</u>	<u>26,806,285</u>		
External consultants							
1 Mar 2015	339,001	–	60,200	–	278,801	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	<u>394,470</u>	–	<u>344,470</u>	–	<u>50,000</u>	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
Sub-total:	<u>733,471</u>	–	<u>404,670</u>	–	<u>328,801</u>		
Total:	<u>40,537,812</u>	<u>4,992,390</u>	<u>17,892,440</u>	<u>502,676</u>	<u>27,135,086</u>		

Note:

1. The first 25% of the total options 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 become exercisable in each subsequent six months.
2. Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
3. The first 25% of the total options can be exercised 2 years after the commencement date as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
4. The first 33.33% (one-third) of the total options can be exercised 1 year after the commencement dates as specified in the relevant grant letters, and each 33.33% (one-third) of the total options will become exercisable in each subsequent year.



5. The closing price immediately before the date on which the options were granted on 12 June 2020, 15 August 2020, 15 October 2020 and 15 December 2020 was USD6.2 per share, USD7.2 per share, USD7.15 per share and USD9.44 per share, respectively.
6. The weighted average closing price immediately before the date on which the options were exercised was USD7.25 per share.
7. 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 2020 was USD2.7 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 (0.71% – 0.91%), dividend yield (nil) and expected volatility* (40% – 42.5%).

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

Details of movements of share options under the share option schemes adopted by Supercell, a subsidiary of the Group, during the year ended 31 December 2020 are as follows:

Date of grant	Number of share options				As at 31 December 2020	Exercise price EUR	Exercise period
	As at 1 January 2020	Granted during the year	Exercised during the year	Cancelled during the year			
31 May 2012	10,505	–	10,505	–	–	0.14	Till 31 Mar 2021 (Note)
11 Apr 2013	3	–	–	3	–	1.64	Till 31 Mar 2021 (Note)
7 Oct 2013	2,644	–	1,637	1,007	–	3.59	Till 31 Mar 2021 (Note)
5 Dec 2013	4,998	–	1,212	3,786	–	3.59	Till 31 Mar 2021 (Note)
1 Apr 2014	393	–	–	393	–	29.39	Till 31 Mar 2021 (Note)
Total:	<u>18,543</u>	<u>–</u>	<u>13,354</u>	<u>5,189</u>	<u>–</u>		

Note:

All outstanding options were granted, vested and exercisable before Supercell became our subsidiary.



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Details of movements of share options under the share option schemes adopted by HUYA, a subsidiary of the Group, during the year ended 31 December 2020 are as follows:

Date of grant	As the date of completion of the business combination (Note 1)	Number of share options			As at 31 December 2020	Exercise price USD	Exercise period
		Granted during the year	Exercised during the year (Note 3)	Lapsed/forfeited during the year			
9 Aug 2017	758,088	–	551,850	–	206,238	2.55	Till 9 Aug 2027 (Note 2)
9 Aug 2017	8,507,220	–	7,929,718	–	577,502	2.55	Till 9 Aug 2027 (Note 2)
9 Aug 2017	25,000	–	25,000	–	–	0.01	Till 9 Aug 2027 (Note 2)
1 Mar 2018	18,000	–	18,000	–	–	2.55	Till 1 Mar 2028 (Note 2)
15 Mar 2018	5,882,353	–	5,882,353	–	–	2.55	Till 15 Mar 2028 (Note 2)
1 Jul 2018	9,000	–	–	–	9,000	2.55	Till 1 Jul 2028 (Note 2)
Total:	<u>15,199,661</u>	<u>–</u>	<u>14,406,921</u>	<u>–</u>	<u>792,740</u>		

Note:

- HUYA became our subsidiary in April 2020.
- All outstanding options were granted before HUYA became our subsidiary, and became vested and exercisable prior to or upon HUYA becoming our subsidiary.
- The weighted average closing price immediately before the date on which the options were exercised was USD23.55 per share.



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).	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).



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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:

The total number of shares available for issue under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV are 200,551,970 and 306,587,850 respectively, which represent approximately 2.09% and 3.20% respectively of the issued shares of the Company as at the date of this annual report.



MOVEMENTS IN THE SHARE OPTIONS

Details of the movements in the share options during the year are set out in Note 34 to the consolidated financial statements.

VALUATION OF SHARE OPTIONS

Details of the valuation of share options during the year are set out in Note 34 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))	2% of the issued shares of the Company as at the Adoption Date III (i.e. 191,047,317 shares)



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	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))	1% of the issued shares of the Company as at the Adoption Date III (i.e. 95,523,658 shares)
5. Operation	<p>The Board shall select the Eligible Person(s) and determine the number of shares to be awarded.</p> <p>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.</p>	<p>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.</p> <p>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 as soon as practicable after the Grant Date.</p>	<p>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.</p> <p>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 as soon as practicable after the Grant Date.</p>



	2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
6. Restrictions	<p>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.</p>	<p>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</p>	<p>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</p>



Directors' Report

	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 5,173,774 and 32,022,766 Awarded Shares were granted under the 2013 Share Award Scheme and the 2019 Share Award Scheme respectively and out of which, 59,500 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 34 to the consolidated financial statements.

During the year, a total of 41,297,425 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.



Directors' Report

As at 31 December 2020, there were a total of 138,863 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

Name of director	Date of grant	Number of Awarded Shares			As at 31 December 2020	Vesting period
		As at 1 January 2020	Granted during the year	Vested during the year		
Iain Ferguson Bruce	21 March 2016	5,000	–	5,000	–	21 March 2017 to 21 March 2020
	24 March 2017	10,000	–	5,000	5,000	24 March 2018 to 24 March 2021
	9 April 2018	7,500	–	2,500	5,000	9 April 2019 to 9 April 2022
	4 April 2019	13,000	–	3,250	9,750	4 April 2020 to 4 April 2023
	20 March 2020	–	13,000	–	13,000	20 March 2021 to 20 March 2024
Total:		<u>35,500</u>	<u>13,000</u>	<u>15,750</u>	<u>32,750</u>	



Directors' Report

Name of director	Date of grant	Number of Awarded Shares			As at 31 December 2020	Vesting period
		As at 1 January 2020	Granted during the year	Vested during the year		
Ian Charles Stone	21 March 2016	5,000	–	5,000	–	21 March 2017 to 21 March 2020
	24 March 2017	10,000	–	5,000	5,000	24 March 2018 to 24 March 2021
	9 April 2018	9,750	–	3,250	6,500	9 April 2019 to 9 April 2022
	4 April 2019	17,000	–	4,250	12,750	4 April 2020 to 4 April 2023
	20 March 2020	–	17,000	–	17,000	20 March 2021 to 20 March 2024
	Total:	<u>41,750</u>	<u>17,000</u>	<u>17,500</u>	<u>41,250</u>	
Li Dong Sheng	21 March 2016	2,500	–	2,500	–	21 March 2017 to 21 March 2020
	24 March 2017	5,000	–	2,500	2,500	24 March 2018 to 24 March 2021
	9 April 2018	4,875	–	1,625	3,250	9 April 2019 to 9 April 2022
	4 April 2019	8,500	–	2,125	6,375	4 April 2020 to 4 April 2023
	20 March 2020	–	8,500	–	8,500	20 March 2021 to 20 March 2024
	Total:	<u>20,875</u>	<u>8,500</u>	<u>8,750</u>	<u>20,625</u>	



Directors' Report

Name of director	Date of grant	Number of Awarded Shares			As at 31 December 2020	Vesting period
		As at 1 January 2020	Granted during the year	Vested during the year		
Yang Siu Shun	6 July 2016	2,869	–	2,869	–	6 July 2017 to 6 July 2020
	24 March 2017	5,000	–	2,500	2,500	24 March 2018 to 24 March 2021
	9 April 2018	7,500	–	2,500	5,000	9 April 2019 to 9 April 2022
	4 April 2019	15,000	–	3,750	11,250	4 April 2020 to 4 April 2023
	20 March 2020	–	15,000	–	15,000	20 March 2021 to 20 March 2024
	Total:	<u>30,369</u>	<u>15,000</u>	<u>11,619</u>	<u>33,750</u>	
Ke Yang	23 August 2019	5,984	–	1,496	4,488	23 August 2020 to 23 August 2023
	20 March 2020	–	6,000	–	6,000	20 March 2021 to 20 March 2024
	Total:	<u>5,984</u>	<u>6,000</u>	<u>1,496</u>	<u>10,488</u>	
Grand Total:	<u>134,478</u>	<u>59,500</u>	<u>55,115</u>	<u>138,863</u>		



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

Iain Ferguson Bruce

Ian Charles Stone

Yang Siu Shun

Ke Yang

In accordance with Article 87 of the Articles of Association, Mr Iain Ferguson Bruce and Mr Yang Siu Shun will retire at the 2021 AGM. Mr Bruce will not offer himself for re-election at the 2021 AGM and Mr Yang, being eligible, will offer himself 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.



Directors' Report

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 49, 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 27 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 47, 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 (formerly known as Meituan Dianping), 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, and TME, an online music entertainment platform in China; both of these companies are listed on the New York Stock Exchange. Mr Lau is also a director of JD.com, Inc., an online direct sales company in China, that is listed on NASDAQ and the 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. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company.

Jacobus Petrus (Koos) Bekker, age 68, 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 57, 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, including Mail.ru Group Limited that is listed on the London Stock Exchange. 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 27 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 63, 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 Chairman and an executive director 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 26 years of experience in the information technology field. Mr Li was an independent director of Legrand that is listed on the New York Stock Exchange Euronext up to 30 May 2018, and was also 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.

Iain Ferguson Bruce, age 80, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996, and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 50 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors, and the Hong Kong Securities and Investment Institute. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, South Shore Holdings Limited (formerly known as The 13 Holdings Limited), a construction, engineering services and hotel development company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the Stock Exchange. Mr Bruce was an independent non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange, up to 6 March 2020.

Ian Charles Stone, age 70, 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 31 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. Mr Stone has more than 50 years of experience in the telecom and mobile industries. Mr Stone is a fellow member of The Hong Kong Institute of Directors.



Directors' Report

Yang Siu Shun, age 65, 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 Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, 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 also 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 The Open University of Hong Kong ("OUHK"), up to 19 June 2019. 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 OUHK 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 65, 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 the Chinese Medical Association, Vice-president of China Medical Women's Association, President of the Health Professional Education Committee of the Chinese Association of Higher Education, and Vice-chairperson of the Steering Committee of Clinical Medicine of the Committee of Academic Degrees of the State Council. 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 and the Chairperson of the Working Committee for Graduate Medical and Pharmaceutical Education of the Office of Academic Degrees of the State Council. 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.



BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 49, 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 45, 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. Mr Ren currently serves as a director of a subsidiary of the Company.

Zhang Xiaolong, age 51, 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 47, 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.



Directors' Report

Tong Tao Sang, age 47, Senior Executive Vice President, President of Cloud and Smart Industries Group and Chairman of TME, 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. Prior to joining the Company, Mr Tong worked for Sendmail, Inc. on managing the product development of operator-scale messaging systems. Mr Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. 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 46, 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 46, 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 certain subsidiaries of the Company.

Ma Xiaoyi, age 47, 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 48, 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 52, Chief Financial Officer and Senior Vice President, joined the Company in 2004 and had served as the Company's Financial Controller from 2004 to 2008. Mr Lo was promoted to the Company's Deputy Chief Financial Officer in 2008 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 48, 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 45, 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 25 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 59, 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 such as JD.com, Inc., DiDi, Meituan (formerly known as Meituan Dianping) and 58.com. Mr Yeung also serves as Dean of TencentX, a corporate learning platform that has approximately 400 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' Report

DIRECTORS' SERVICE CONTRACTS

Mr Ma Huateng has entered into a service contract with the Company for a term of three years from 1 January 2019 to 31 December 2021. The term of the service contract can be further extended by agreement between the Company and Mr Ma. The Company may terminate the service contract by three months' written notice at any time, subject to paying his salary for the shorter of six months and a portion of his annual bonus for the year in which termination occurred pro rata to the portion of the year before the termination becomes effective.

Mr Lau Chi Ping Martin has entered into a service contract with the Company for a term of three years ending 31 December 2021. Mr Lau is entitled to an annual bonus based on the performance of the Company in an amount to be determined by the Remuneration Committee. Mr Lau is entitled to participate in all employee benefit plans, programmes and arrangements of the Company.

Save as disclosed above, none of the directors who are proposed for re-election at the 2021 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 2020, 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
Ma Huateng	Corporate (Note 1)	804,859,700	8.39%
Lau Chi Ping Martin	Personal *	53,390,021 (Note 2)	0.56%
Li Dong Sheng	Personal *	29,375 (Note 3)	0.0003%
Iain Ferguson Bruce	Personal *	365,500 (Note 4)	0.004%
Ian Charles Stone	Personal * Family +	62,000 240,000 <hr/> 302,000 (Note 5)	0.003%
Yang Siu Shun	Personal *	46,474 (Note 6)	0.0005%
Ke Yang	Personal *	11,984 (Note 7)	0.00012%



Directors' Report

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by 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 33,267,826 shares and 20,122,195 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 8,750 shares and 20,625 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 332,750 shares and 32,750 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".
 5. The interest comprises 260,750 shares and 41,250 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".
 6. The interest comprises 12,724 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".
 7. The interest comprises 1,496 shares and 10,488 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".
- * 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 2020.



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 and the new operating companies (the "New OPCOs") (collectively, 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 2020, 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.



Directors' Report

Requirements related to Structure Contracts (other than relevant foreign ownership restrictions) as at 31 December 2020

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 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 2020:

Name of the operating companies	Registered owners as at 31 December 2020	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

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 RMB258 billion for the year ended 31 December 2020 and approximately RMB44 billion as at 31 December 2020 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 Tencent Computer's and Shiji Kaixuan's Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) as at 31 December 2020 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 and Guian New Area Tencent Cyber. The



Directors' Report

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 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 2020 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 2020, 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 RMB117,821 million, RMB3,143 million, RMB19,085 million, RMB36,983 million, RMB16,889 million, RMB2,999 million, RMB2,474 million, RMB4,313 million, RMB2,622 million, RMB242 million, RMB465 million and RMB229 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 and Guian New Area Tencent Cyber 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 intellectual property 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 intellectual property 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 intellectual property transfer was transacted under such arrangements, save as disclosed elsewhere in this section.



4. Pursuant to the intellectual property 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 intellectual property 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 intellectual property 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.



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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, revenue sharing amounting to approximately RMB0.774 million, RMB1 million and RMB31 million was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB0.853 million, RMB7 million and RMB0.007 million was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB0.653 million and RMB0.241 million was paid or payable by Beijing Starsinhand to Cyber Tianjin and Tencent Beijing 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

Save as the related parties transaction 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 34 (Share-based payments) and Note 44 (Related party transactions) to the consolidated financial statements, no related parties transactions disclosed in the consolidated financial statements constitutes a discloseable connected transaction as defined under the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.



Directors' Report

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, 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
MIH TC	Long position	Corporate (Note 1)	2,961,223,600	30.87%
Advance Data Services Limited	Long position	Corporate (Note 2)	804,859,700	8.39%

Note:

1. MIH TC is controlled by Naspers Limited indirectly through its non wholly-owned intermediary companies, Prosus N.V. and MIH Internet Holdings B.V. As such, Naspers Limited, Prosus N.V. and MIH Internet Holdings B.V. are deemed to be interested in the same block of 2,961,223,600 shares under Part XV of the SFO. MIH Services FZ LLC was previously deemed to be interested in this same block of shares under Part XV of the SFO. However, following an internal restructure of the Prosus group, MIH Internet Holdings B.V. is now deemed to be interested in this same block of 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 Ma Huateng, Mr Ma has an interest in these shares as disclosed under the section of "Directors' Interests in Securities".

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 2020, 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 2020, the five largest customers of the Group accounted for approximately 6.30% of the Group's total revenues while the largest customer of the Group accounted for approximately 2.71% of the Group's total revenues. In addition, for the year ended 31 December 2020, the five largest suppliers of the Group accounted for approximately 16.88% of the Group's total purchases while the largest supplier of the Group accounted for approximately 5.12% 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 2020. 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.



Directors' Report

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 2020, the Group had 85,858 employees (2019: 62,885). 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 2020 was RMB69,638 million (2019: RMB53,123 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 2021 AGM

The register of members of the Company will be closed from Friday, 14 May 2021 to Thursday, 20 May 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2021 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, 13 May 2021.

(B) Entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from Wednesday, 26 May 2021 to Thursday, 27 May 2021, 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 Tuesday, 25 May 2021.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2021 AGM.

On behalf of the Board

Ma Huateng

Chairman

Hong Kong, 24 March 2021



Corporate Governance Report

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 2020, the Company complied with the applicable code provisions set out in the CG Code, except for the deviation from code provisions A.2.1 regarding the segregation of the roles of the chairman and chief executive and A.4.2 regarding the retirement and re-election of directors.

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 for, 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;



Corporate Governance Report

- 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 director 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 frequent 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.



Corporate Governance Report

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 training and continuous professional development of the directors and senior management team;
- 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; and
- reviews the Company's ESG strategy and makes recommendations to the Board.

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 2020 is set out on pages 82 to 88.



Corporate Governance Report

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 2020, 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 2020:

Name of director	Participated in continuous professional development¹
<i>Executive directors</i>	
Ma Huateng	√
Lau Chi Ping Martin	√
<i>Non-executive directors</i>	
Jacobus Petrus (Koos) Bekker	√
Charles St Leger Searle	√
<i>Independent non-executive directors</i>	
Li Dong Sheng	√
Iain Ferguson Bruce	√
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.



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 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. 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.



Corporate Governance Report

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 2020, 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 nine directors, with two executive directors, two non-executive directors and five independent non-executive directors. During the year ended 31 December 2020 and up to the date of this annual report, there is no change to the composition of the Board.

A list of directors and their respective biographies are set out on pages 51 to 54 of this annual report.

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.



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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, two of our independent non-executive directors have 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.



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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. In the 2020 annual general meeting, Messrs Lau Chi Ping Martin and Charles St Leger Searle retired and were re-elected, and Professor Ke Yang was re-elected in accordance with Article 86(3) of the Articles of Association.

Code provision A.4.2 of the CG Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. 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, there is a deviation from code provision A.4.2 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 of the CG Code has no material impact on the operation of the Group as a whole.

As the re-election of Mr Yang Siu Shun, who was re-elected in 2017, was not considered at the 2020 annual general meeting, there is a deviation from code provision A.4.2 of the CG Code. Considering that the re-election of Mr Yang Siu Shun will be considered at the 2021 AGM, the Board believes that such deviation from code provision A.4.2 of CG Code does not have a material impact on the operation of the Company as a whole.



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Board Activity

The Board met five times in 2020. The attendance of each director at Board meetings, committee meetings and annual 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
Executive directors						
Ma Huateng	5/5			1/1		1/1
Lau Chi Ping Martin	5/5					1/1
Non-executive directors						
Jacobus Petrus (Koos) Bekker	5/5				4/4	1/1
Charles St Leger Searle	5/5	8/8	2/2	1/1		1/1
Independent non-executive directors						
Li Dong Sheng	5/5			1/1	4/4	0/1
Iain Ferguson Bruce	5/5	8/8	2/2	1/1		1/1
Ian Charles Stone	5/5	8/8	2/2	1/1	4/4	1/1
Yang Siu Shun	5/5	8/8	2/2			1/1
Ke Yang	5/5		2/2			0/1

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 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.



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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 Iain Ferguson Bruce, Mr Ian Charles Stone (all of them 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 Iain Ferguson Bruce 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 2020. Individual attendance of each Audit Committee member is set out on page 81. 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 2020 includes the following:

- reviewing the 2019 annual report, including the Corporate Governance Report, the Environmental, Social and Governance Report, Directors' Report and the financial statements, as well as the related results announcement;
- reviewing the 2020 interim report and interim results announcement;
- reviewing the 2020 first and third quarters results announcements;
- reviewing the status of compliance with the CG Code, the Listing Rules and relevant laws by the Group;
- proposing the dividend policy of the Company for the consideration and adoption by the Board;



- 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 2020), 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 2021 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 Iain Ferguson Bruce, 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 2020. Individual attendance of each Corporate Governance Committee member is set out on page 81.

The Corporate Governance Committee's major work during the year 2020 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;
- 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 Environmental, Social and Governance Report;



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- 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
- the terms of reference of the Corporate Governance Committee of the Company was revised and adopted in February 2021.

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 2020, 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 Iain Ferguson Bruce, Mr Ian Charles Stone (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 2020. Individual attendance of each Nomination Committee member is set out on page 81.

During 2020, 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 2020 annual general meeting. 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 Nomination Committee on a case-by-case basis.

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



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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 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.

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.



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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 2020. Individual attendance of each Remuneration Committee member is set out on page 81.

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 2020 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; and
- reviewing and approving compensation awards granted to senior management team, recognising their contributions to the Company and providing incentives for future performances.

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. They 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 Company 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 effective business operation, accuracy and reliability of the 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.

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.



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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 an independent evaluation on the effectiveness of the Company's risk management and internal control systems, and monitoring management's continuous improvement over the risk management and internal controls.

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, 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 2020, 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.



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Significant Risks of the Company

As the Company's business scale, scope and complexity have evolved, so as its external environment, management considers that the Company is still facing the nine significant risks disclosed in 2019 through the risk management process detailed above. "Regulatory and Compliance Risk", "Market Competition and Innovation Risk", "Social Responsibility and Environmental Sustainability Risk" and "M&A and Investment Management Risk" have been increased while the other risks remain at the similar level as last year.

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*

The Internet and technology industry is still evolving yet getting more mature. In an attempt to keep up with such evolution, regulatory authorities in different jurisdictions have been heightening respective regulatory requirements. As the Company continuously expands its businesses in the PRC and overseas to more countries and jurisdictions, 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 relating to privacy and data protection, IP, telecommunications and Internet, gaming, Internet finance, labour protection, foreign investment, international trade, antitrust, etc. In addition, development of various industries around the world may be impacted by regulatory uncertainties in different jurisdictions and uncertainties in international relations.

The Company has invested enormous compliance resources and efforts to ensure compliance with applicable laws and regulatory requirements. This includes setting up special departments and specialist teams, as well as engaging external professional consultants to work closely with management to track on changes in relevant laws and regulations; and take appropriate responding actions or measures to ensure the Company is in compliance with such applicable laws and regulations. In addition, the Company also engages in active dialogue with relevant regulatory authorities, and exchanges view and information with relevant regulatory authorities on the market trends and the development of Internet and technology industry.



2. *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 evolutionary 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 attract new users and stay competitive are still the key challenges of the Company. Any lagging in innovation and development of technology and product would impair the core competitiveness 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. Internally, 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. Externally, the Company co-creates ecosystems through strategic investments and M&A, as well as collaboration with business partners. As always, the Company leverages the strength of the new ecosystems to seek new business partners to explore new business opportunities and better approach to responding to the market needs and expectations. With the aim to promote "mutual benefit and win-win" concept, the Company has established a number of open platforms to incubate potential startup companies, and enhance its collaboration with business partners and its competitiveness in the market.

3. *Information security risk*

Protecting user and customer data is the top priority of the Company. The Company continues to pay attention to regulatory requirements for 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 and the Company's reputation. This could in turn lead to potential legal actions against the Company.

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, and the establishment of appropriate and effective management processes, and continuously improving 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.



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4. *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 affect the development of its ToB business and affect the achievement of its strategic objectives.

The Company is accumulating and solidifying its experience in the ToB business, it does so by analyzing 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 financial services, retail, social services, tourism, healthcare, industry, transport, energy, radio & television, education, 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 sustained development.

5. *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 issue in connection is likely to adversely impact the Company's businesses. In addition, the Company's operations may be negatively affected or disrupted by the natural disasters, social security events, or epidemic diseases. Relevant incidents may damage workplaces and equipment that are vital to the Company and its business partners, and threaten the health of their employees.



The Company has been continuously investing in the network infrastructure to enhance its business recovery and continued capabilities for providing stable support to the business operations and development. Various business departments are also engaged in business continuity management to ensure the smooth operation of the Company's business. In addition, the Company has established dedicated teams to develop business contingency plans and has performed periodic drills on the plans to ensure their effectiveness. The dedicated teams have also reviewed the plans as well as the result of the drills. 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 will also work 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.

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

As one of the China's largest Internet and technology companies with a diverse portfolio of businesses, products and investments, users and business partners, as well as increasingly complex business forms, the Company always attracts very high attention from the public and media. The Company needs to consider possible crisis and actively respond to them, to avoid worsening of problems or escalation of 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. The crisis management teams have maintained close interaction with management and business groups, 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.



Corporate Governance Report

7. *Social responsibility and environmental sustainability risk*

The Company upholds its vision and mission of “Value for Users, Tech for Good” by embracing the philosophy of sustainable development. The Company is always committed to social responsibility and promoting environmental sustainability using Internet and other technologies.

The Company helps facilitate the upgrade and transformation of various industries including healthcare, education, travel, tourism, etc. and builds new forms of employment, creating value for both enterprises and customers by drawing on its core competencies in the fields of Internet, technology and communication. With the leverage of digital technology, the Company strives to revitalize China’s rural areas and bridge the urban-rural digital divide to better promote shared development of the society.

As China’s first Internet and technology enterprise with a charity foundation, the Company established and operates the Tencent Charity Platform and commits itself to improve the digital capabilities of the charitable sector. In response to the COVID-19 pandemic, we have established a RMB1.5 billion China Anti-Pandemic Fund and a USD100 million Global Anti-Pandemic Fund to support efforts against the pandemic.

The “Xplore Prize” is initiated by the Company together with several renowned scientists to actively encourage the study of key technologies and basic science among young scientists. In respect of protection of juveniles, the “Parental Guardian Platform” and “Healthy Gameplay System” were established to prevent unhealthy gaming habits of juveniles by enhancing the screening of suspected underaged users. Meanwhile, the Company continues to put efforts in promoting education, protecting the environment and preserving culture.

The Company is committed to promoting environmental sustainability and places environmental protection as one of its top tasks. The Company continues to pay attention to the environment and climate change, and actively responds to China’s carbon neutrality plan. The Company recently announced its commitment in moving towards carbon neutrality to help tackle climate change. While improving the energy and water efficiency of office operations and data centers, the Company also provides a variety of products and services (such as Tencent Cloud, WeCom, Tencent Meeting, etc.) to help its business partners carry out digital transformation and to promote a shift towards low-carbon, green and circular economy.

8. *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 manage investment risks could hinder the realization of investment strategies and lead to probable financial loss of the Company.



The Company takes the management of investment risks seriously, and has, amongst other things, 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 and put in place the investment risk evaluation and approval process. 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 IA and IC to empower investee companies, and to continuously support the management of its controlling subsidiaries in establishing more sound risk management and internal control systems.

9. *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 developing its business, its business scale and complexity increased, 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 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 corruption and fraud, as well as its commitment towards creating a virtuous and honest atmosphere within the Company and the industry.



Corporate Governance Report

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 the Company. 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 2020, 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 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 are sufficient.

SHAREHOLDERS

The Company strives to provide ready, equal, regular and timely disclosure of information that is material to the investor community. Therefore, the Company works to maintain effective and on-going communication with shareholders so that they, along with prospective investors, can exercise their rights in an informed manner based on a good understanding of the Group's operations, businesses and financial information. The Company also encourages shareholders' active participation in annual general meetings and other general meetings or other proper means. As such, the Company sends notices to shareholders for annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings. In addition, the Company has developed and maintains the shareholders communication policy, which is available on the Company Website, and the dividend policy.

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 2020 annual general meeting held on 13 May 2020, with a view to understanding the views of the Company's shareholders. The company secretary provided the minutes of the 2020 annual general meeting 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. The Company's shareholders may also propose candidates for election as a director of the Company according to the following procedures, details of which are also set out on the Company Website.



Corporate Governance Report

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; and such meeting shall be held within two months after the deposit of such requisition.

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 can contact or send enquiries to us via the Company Website. 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.

The Second Amended and Restated Memorandum and Articles of Association

Upon the shareholders' approval by way of special resolution at the 2020 annual general meeting, the Company has adopted the Second Amended and Restated Memorandum and Articles of Association for the purpose of, among others, permitting the Company to hold hybrid general meetings and general meetings by electronic means.



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 for employees for 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 2020.

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 155 to 163. During the year ended 31 December 2020, 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 professional services on risk management and internal control review, M&A advisory service, tax advisory service and ESG assurance service.

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 thinks could potentially be inside information, he 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

ABOUT US

We enrich people's lives through technology and the Internet. Our communication and social network platforms (Weixin and QQ) enhance interpersonal communication and enable timely access to media and lifestyle services. Our effective advertising platforms help brands and merchants reach hundreds of millions of consumers in China. Through FinTech and Business Services, we help support our business partners' growth into the digital age. We invest in talent and cultivate an environment for innovation. We also value environmental protection, and practice energy conservation and emission reduction in our business operations. Our goal is to continue to create new and effective ways to make the Internet more beneficial to the industry and society.

VISION & MISSION

In 2020, we continued to uphold Tencent's vision and mission, "Value for Users, Tech for Good", enhancing user experience in conjunction with social benefits. To make Tencent an even more socially responsible company, we strive to incorporate social responsibility in all aspects of business, including our products and services, technology innovation, cultural preservation, and business digitalisation. The goal is to build a sustainable collaboration with society.

OUR CULTURE

Our corporate culture values integrity, proactivity, collaboration, and creativity. Integrity means to uphold principles, ethics, honesty and fairness; proactivity means to pursue positive contributions, volunteer for responsibility and push for breakthroughs; collaboration means to be inclusive of our community and working together to strive to progress and evolve; creativity means to push for innovations and explore all possibilities for a better future.

COMPILATION ILLUSTRATION

This report is prepared in accordance with the ESG Reporting Guide. The report is to be read together with this annual report, in particular the Corporate Governance Report within this annual report, as well as the sections headed "Corporate Governance" and "Our Culture" on the Company Website.

BOARD STATEMENT

The Board oversees environmental, social and governance ("ESG") issues with the support of the Corporate Governance Committee. Information on ESG issues is reported to the Corporate Governance Committee by an internal working group comprising of members from various departments and business groups tasked with executing our ESG strategy and making recommendations to the Corporate Governance Committee.



Environmental, Social and Governance Report

It is important to formulate effective strategies to balance the economic, environmental, and social benefits of our business with our other business targets. We have developed our own ESG strategy. For details, please refer to the section captioned “ESG Strategy”. The Board has regularly reviewed these strategies to ensure that they are consistent with the Group’s development strategies.

The Board has participated in the assessment, prioritisation, and management of ESG issues (including risks to Tencent’s business). Tencent has regularly assessed the materiality of ESG (including risks to the Group’s business). Please refer to the following sections captioned “Stakeholder Analysis” and “Assessment on the Materiality of the ESG Topics” for details of the materiality assessment work. The key ESG risks have been incorporated into the Company’s comprehensive risk management system. From the principal business leaders to the senior management, the Group has comprehensively considered the possibility, impact, and trends of key ESG risks, to formulate risk response measures. The Board has reviewed these key risks and was aware of the measures taken, and made recommendations.

During the reporting period, Tencent has set environmental targets related to business operations, namely targets for emissions and resources consumption of office buildings and data centre operations. The Board has reviewed and discussed the progress of the targets established.

This report also discloses in detail the above ESG related issues, which have been reviewed and approved by the Board on 24 March 2021.

APPLICATION OF REPORTING PRINCIPLES

The report was prepared based on the principles of “materiality”, “quantitative” and “consistency”.

Materiality: We have followed the ESG Reporting Guide to carry out materiality assessment work. Our work procedures include: i) identifying relevant ESG issues, ii) assessing the materiality of the issues, iii) reviewing and confirming the assessment process and results by the Board. We report on ESG issues based on the results of the materiality assessment. For details of the materiality assessment work, please refer to the sections captioned “Stakeholder Analysis” and “Assessment on the Materiality of the ESG Topics” below.

Quantitative: We have followed the ESG Reporting Guide, made reference to applicable quantitative standards and practices and used quantitative methods to measure and disclose applicable key performance indicators, and set environmental targets, including numerical figures and directional statements. The measurement standards, methodologies, assumptions and/or calculation tools of the key performance indicators in this report, as well as the source of the conversion factors used, have been explained in the corresponding context (where applicable). The relevant environmental targets are described in the section captioned “Energy Saving and Emission Reduction”.

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.



Environmental, Social and Governance Report

REPORTING BOUNDARY OF THIS REPORT

This report aims to provide a balanced representation of the Group's ESG performance with respect to environment, workplace, supply chain management, product responsibility, community, etc. We will focus on each of these areas in this report, in particular, ESG issues that could have a material impact on the sustainability of our operations and that are of interest to stakeholders. Unless otherwise specified, this report covers the ESG performance of the businesses directly operated and managed by the Company.

ESG STRATEGY

We have integrated ESG into our business operations and management as part of our corporate development strategy, with a particular focus on fostering closer connections with our stakeholders, listening to our users, working openly with partners to overcome challenges, caring for and growing with employees, and taking on more responsibilities within society. The goal of our ESG strategy is to be recognised as a conscientious and responsible Internet company. In pursuit of this vision, we embrace the principle of sustainability, uphold integrity, promote shared growth and development within the industry, and put environmental protection, staff development and community welfare at the forefront. We conduct and review our ESG strategy in five dimensions as detailed below.

1. Business operations
 - Operate in compliance with applicable laws and regulations
 - Operate with integrity and protect shareholders' interests
 - Care for employees, provide them with a safe and comfortable work environment and training and development opportunities
 - Establish a diverse corporate culture
2. Users
 - Consistently listen to the voices of users, respond to users' inquiries and complaints, concurrently enhancing products and services quality
 - Be honest with users and protect their interests
 - Protect users' privacy and data security, and provide users with a healthy environment
 - Prioritise users' interests in business decision-making



Environmental, Social and Governance Report

3. Business partners (including suppliers and investee companies)
 - Ensure our partners receive fair treatment and benefit from their collaboration with us
 - Allow investee companies to maintain autonomy for their business development and meet them on a regular basis for exchange of industry knowledge and know-how
 - Hold regular meetings with our partners to review their performance and explore possible collaboration opportunities
 - Combat behaviours which are harmful to the interest of our partners by setting up an anti-fraud investigation department
 - Encourage our partners to reflect the ethics and values of our business practice
4. Community
 - Establish a platform for charity donations
 - Promote innovation and the establishment of a legal framework and comprehensive and efficient monitoring and maintenance system to protect IP rights
 - Contribute to the industry and continue to provide an open platform
5. Environment
 - Make protection of the environment one of our priorities
 - Adopt a sustainable investment strategy
 - Remain committed to environmental sustainability

Through this strategy, we can create a favourable environment that will enable us to provide quality services to Internet users and promote positive development of the greater society.

Our ESG strategy requires and encourages the participation of all our product lines and platforms, as well as participation from across the Internet industry (including individuals, enterprises and organisations) to take part in the implementation of our ESG strategy.

Our “Connection” strategy has significant implications for our ESG initiatives. Important changes can be achieved through connecting millions of Internet users, as well as developing their modes of communication and lifestyles to create more exciting opportunities for society. In addition, through the “smart living” system in QQ and Weixin/WeChat, users can be digitally connected to public services, which facilitates developments in transport, healthcare, environmental protection, public safety and other social arenas. This is important for optimising the distribution of societal resources, driving innovation in public services, improving service quality, breaking down communication barriers and ultimately benefitting the wider community. We will leverage our core capability in Internet, technology and communication to develop innovative approaches to resolve social issues, promote social development and protect public interest. We also aim to raise ESG awareness in society through collaborating with our stakeholders and other industry players.

We will closely collaborate with our stakeholders with the aim of creating a better future.



Environmental, Social and Governance Report

Stakeholder Analysis

We understand the importance of feedbacks from our stakeholders (including the community and public, employees, government and regulatory bodies, non-government organisations and media, shareholders and investors, suppliers and users) on our ESG performance. Therefore, we have established effective communication channels with our stakeholders (in alphabetical order) as follows:

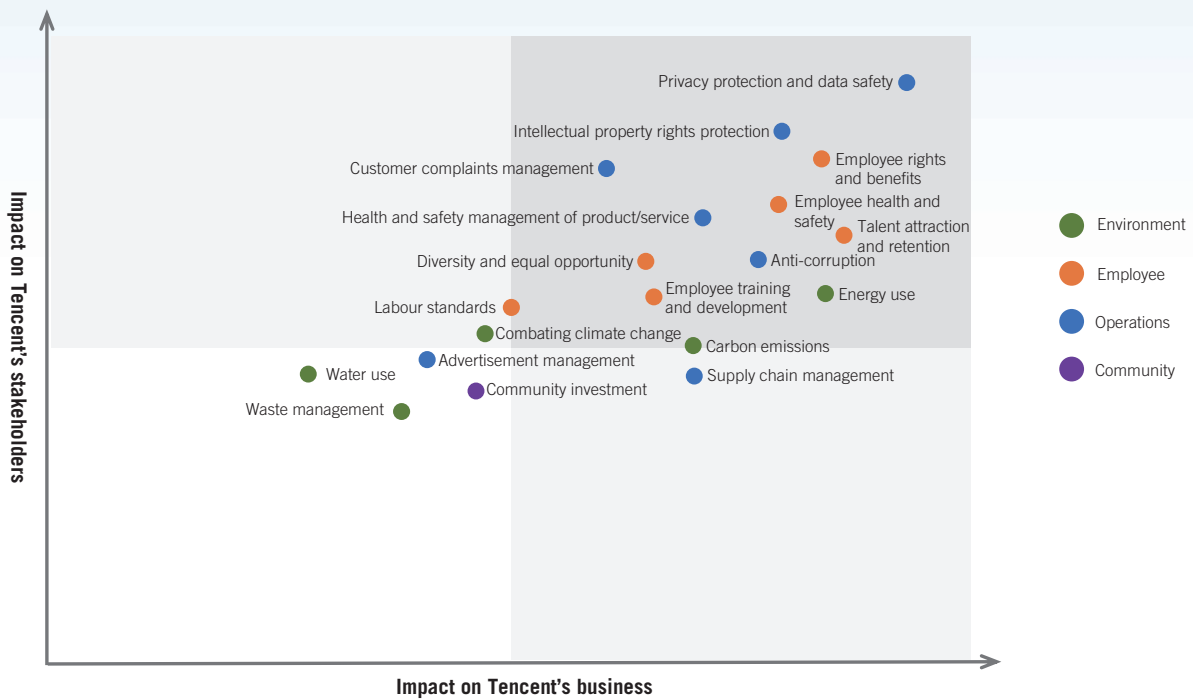
Stakeholders	Key topics	Key communication channels
Community and public	Charity Volunteering Environmental protection	Tencent Charity Foundation, fundraising platform
Employees	Employee benefits Career development Healthy work environment	Employee satisfaction survey, employee training, annual employee rally, face-to-face discussion forum, featured magazines, social media platform
Government and regulatory bodies	Compliance Corporate governance	Meetings, policy consultation, incident reporting, official visit, information disclosure
Non-government organisations and media	Products and services quality Environmental protection Compliance Charity	Social media platform, industry events, press conference
Shareholders and investors	Investment return Business strategy Information transparency	Corporate announcements, investor conference, official website, regular meetings
Suppliers	Fair cooperation Integrity	Regular meetings, supplier assessment, site visit
Users	Products and services quality Privacy protection	User experience research, customer service hotline, online customer service, Weixin/WeChat and face-to-face customer support



Environmental, Social and Governance Report

Assessment on the Materiality of the ESG Topics

In the issue-identification stage, we identified material ESG issues related to Tencent based on the information obtained through the above communication channels and the ESG Reporting Guide. The following material ESG issues are identified through surveys to understand the level of concern of internal and external stakeholders on various material ESG issues, and combined together with the ESG risk assessment results:



ENVIRONMENT

Environmental protection is a basic national policy in China. *The Law on Energy Conservation of the People's Republic of China* requires every entity and individual to comply with the legal obligation to conserve energy. *The Environmental Protection Law of the People's Republic of China* requires that every entity and individual to protect the environment; more specifically, enterprises shall minimise waste production to reduce impact on the ecological environment. We recognise the importance of environmental protection and the conservation of natural resources. For example, our Tencent office buildings in Shenzhen have installed a multitude of energy saving technologies and our employees have been educated on energy saving practices. The technologies have been adopted in Tencent offices in other locations globally. We also build data centres with considerations for the environment. Throughout 2020, Tencent has complied with all applicable laws and regulations for conserving and protecting the environment.

Addressing Climate Change

The risks and impacts of climate change are becoming increasingly significant. We continue to pay close attention to the impact of climate change on our business, strategy, and financial performance, and fully support global climate-related actions.



Environmental, Social and Governance Report

Governance

Climate-related risks and issues are considered and monitored by the Board with the assistance of the Corporate Governance Committee. Our management actively evaluates and promotes carbon neutrality.

Strategy

We acknowledge that climate change brings multiple risks and opportunities for our business. Our physical risks primarily result from acute climate events and chronic risks caused by climate change, while transitional risks mainly come from the market and policy changes to transition to a low-carbon economy. On the other hand, climate change would create opportunities for us to improve energy efficiency and develop low-carbon 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; while chronic risks, such as high temperatures and droughts etc., may lead to increased energy consumption for office and data centre operations thereby increasing operational costs, and the increase in sea level may lead to loss in assets in relevant regions. We consider the impact of regional climate when allocating assets and formulate emergency measures for acute climate events to avoid and reduce operational impacts or asset losses caused by acute climate events.

In terms of transitional risks, in the context of accelerating the transition to a low-carbon economy, if we fail to effectively control or reduce the carbon emissions generated by corporate operations and provide low-carbon services and products, it may result in brand image damage, loss of customers, or market share reduction etc. We are researching and promoting new and alternative technologies for energy saving and emission reduction, purchasing clean energy, and providing more low-carbon services and products to reduce our own and value chain carbon emissions. We have recently announced our commitment in moving towards carbon neutrality to help tackle climate change and will vigorously promote the application of technology in energy saving and emission reduction.

At the same time, we believe that climate change has also brought various opportunities for Tencent. By improving the energy and water efficiency of office operations and data centres, operational costs and sensitivity to changes in carbon trading prices can be reduced. We provide various products and services (such as Tencent Cloud, WeCom, Tencent Meeting, etc.) to help customers carry out digital transformation and realise energy saving and emission reduction mission. It enables us to gain a more competitive position in the transition to a low-carbon economy.



Environmental, Social and Governance Report

Risk Management

We have integrated ESG risks into the Company's overall risk assessment and management system, which includes risks related to climate change. Each department and business group has also adopted operational management measures to manage and reduce greenhouse gas ("GHG") emissions in business operations. Taking Tencent Binhai Towers as an example, we have adopted energy-saving and environmental protection measures such as smart lighting systems, automatic energy monitoring systems, and water reclamation systems etc. Tencent Binhai Towers has obtained the LEED-NC Gold Standard for an international green building rating system in 2017. Please refer to the section captioned "Energy Saving and Emission Reduction" below for the energy-saving and environmental protection measures taken in office operations and data centres.

We are also actively empowering customers to help the entire society in carbon reduction actions. The various service products we provide, such as Tencent Meeting, Tencent Cloud, etc., offer our customers lower-carbon options for office, business trip, and operations, etc. We are also increasingly exploring the application of AI in energy saving and emission reduction. In April 2019, we proposed the "AI For FEW" (Food, Energy, and Water) initiative to the international community to explore the use of AI and other emerging technologies, and to provide solutions for global sustainable development goals. For example, we have effectively applied AI to various fields such as data centre energy saving and office building energy saving. We are also leveraging cloud computing, data analytics and AI to facilitate desert reclamation.

Metrics and Targets

We are actively responding to China's carbon neutrality plan. In 2020, we set targets for energy saving and emission reduction. Please see the relevant disclosure under the section captioned "Energy Saving and Emission Reduction" below. Please refer to the "Environmental Performance Summary" section below for data related to GHG emissions. We will formulate a corporate carbon neutrality strategy and roadmap by integrating China's carbon neutrality plan, international experience and our actual circumstances. We will reduce GHG emissions, offset or remove remaining GHG emissions, and achieve "net zero carbon emissions" through various practices, such as energy saving and emission reduction, tree planting and afforestation. We will disclose our clear progress and targets to the public in a timely manner. In 2020, we also responded to the Carbon Disclosure Project (CDP) questionnaire for the first time, providing customers, investors, and the market with relevant important information about the Company's response to climate change, including climate change risk assessment, GHG emissions, etc.



Environmental, Social and Governance Report

Energy Saving and Emission Reduction

Energy Saving Measures taken in Office Buildings

We have taken environmental protection as one of our priorities when building the new headquarters, Tencent Binhai Towers, in Shenzhen, which has been certified as meeting the LEED-NC Gold Standard during the construction stage. The building obtained LEED-EBOM Gold certification and the certificate of Two-star Green Building Label in 2020. The property management company of the Shenzhen headquarters has obtained ISO 14001 (environmental management system) certification and ISO 9001 (quality management system) certification. We will uphold the concept of “green, energy-saving, and environmental protection” and continue to carry out energy-saving and consumption-reducing operations and optimisation. We have implemented various measures to enhance efficiency of energy use and reduce water consumption and emissions.

The air conditioning systems at Tencent Binhai Towers reduce energy consumption by using alternating power from hydro-powered pumps and electric motors. In 2020, we completed the optimisation and transformation of air conditioning terminal, air handling unit (“AHU”), and central air conditioning host group control system of Tencent Binhai Towers, through which we have improved the system’s cooling capacity to match the terminal cooling supply and demand and achieve energy-saving and efficient operation. Tencent Binhai Towers alone saves more than 5.98 million kWh a year. We have further optimised energy savings in the air conditioning and building management systems by installing automated energy monitoring devices. Energy consumption from air conditioning is further reduced by using natural ventilation if weather permits. Smart lighting was adopted to allow remote and automatic control over lighting in all office working areas, and there was a transition to an LED lighting system for the public areas.

In 2020, we determined the energy management baseline in every office building in Shenzhen, formulated the energy consumption assessment benchmark and adopted energy-saving measures such as “management + technology + policy”. We also controlled the cost by switching off various energy consumption systems (such as air conditioning, lighting and direct drinking water systems) from back-end or onsite, optimising energy-saving management for our operations usage, and conducting technological transformation to improve the air conditioning terminals and AHU control system of Tencent Binhai Towers. The cost saved in 2020 was approximately RMB13 million, which was more than 10 million kWh based on the average electricity price. As a result, our facility management team has won the Group’s annual cost savings award. We will formulate the Group’s energy management standards based on these measures, and implement and continuously optimise the energy management practices in various regions.



Environmental, Social and Governance Report

The office building of Tencent Binhai Towers uses a water reclamation system to reclaim water condensation from the air conditioning system, and drain water from the water filtration system, employee shower area and server cooling towers. The collected water, after being filtrated and purified, is reused for toilet flush water, watering office plants and cleaning the basement carpark. In addition, we promote a filtrated drinking water system in place of plastic bottled water. This measure reduces the waste from plastic packaging materials and indirectly reduces carbon dioxide emissions generated from the vehicles that deliver bottled water.

We have adopted energy saving measures throughout our daily operations. For example, we have applied stricter on-site management of each building by combining the routine procedures with an energy consumption inspection. When people leave the work space, air conditioning, lights and office equipment in the corresponding office areas are required to be turned off. We have also set automatic shutoff for unused drinking water dispensing units in work areas to reduce energy consumption and waste.

We monitor the levels of air pollutants (such as PM2.5, PM10, carbon monoxide) and carbon dioxide inside and outside Tencent Binhai Towers with an online monitoring system and a manual measuring system. To monitor air quality in the building, we have installed a smart ventilation system (which regulates the ventilation automatically in response to carbon monoxide levels) in the underground parking garage and air ventilation system (which monitors the ventilation continuously for carbon dioxide levels) in the office area. We have upgraded the cooking ventilation units in the kitchens of our office cafeteria. The cooking ventilation is comprised of fire-resistant environmental exhaust hoods that remove oil droplets and cooking odours by filtering the cooking ventilation with photolysis purification, activated carbon filtration and air ionisation. Our filtration of the cooking ventilation is in compliance with the PRC national standards GB18483-2001.

We reinforce the habit of garbage classification to achieve garbage source reduction and classification and we collect garbage in the public areas on each floor based on four categories: recyclable, kitchen waste, toxic and harmful, and other garbage.



Environmental, Social and Governance Report

In 2020, we formulated environmental targets for office buildings, and the progress is shown in the table below.

Targets

Progress in 2020

For any given year, the property companies of all Tencent-owned office buildings in the Mainland of China obtain environmental management system certification.

The target for 2020 has been achieved

By the end of 2020, Tencent Binhai Towers would have obtained the certificate of Two-star Green Building Label.

The target for 2020 has been achieved

For any given year, all Tencent-owned office buildings in the Mainland of China will manage wastes by categories.

The target for 2020 has been achieved

Using per person electricity consumption in 2019 as a benchmark, the electricity consumption per person in all Tencent-owned office buildings in the Mainland of China will be reduced by 15% by the end of 2025.

The interim target for 2020 has been achieved

Using per person water consumption in 2019 as a benchmark, the water consumption per person in all Tencent-owned office buildings in the Mainland of China will be reduced by 15% by the end of 2025.

The interim target for 2020 has been achieved

Green Energy Saving Measures Taken in our Data Centres

Tencent data centres maximise energy efficiency through continuous technological innovation while exploring the application of low-carbon technologies in data centres at scale through pilot programs in distributed energy systems and solar photovoltaic power generation systems. In addition, we are also exploring the application of renewable energy trading, permitted carbon emissions trading, green power certificate trading and other carbon offset methods on the data centres.

In terms of site selection for our large-scale data centre campus, renewable energy of the regional power grid is an important criterion for us. We continue to expand new data centres in areas that are rich in renewable energy, such as Zhangjiakou Huailai, Guian New District and Chongqing Water and Soil High-tech Eco-City etc.



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In terms of green data centres, we have completed the environmental impact assessment for all self-built data centres and have obtained the relevant approvals or filings in accordance with the *Law of the People's Republic of China on Environmental Impact Appraisal*. In terms of green data centres, Tencent has been an industry leader. We have multiple data centres being selected in the 2020 National Green Data Centres List published by the Ministry of Industry and Information Technology: three of our self-owned data centres, Tencent Ebu Data Centre Building No.1, Tencent Tianjin Binhai Data Centre and Chongqing Tencent Cloud Computing Data Centre, as well as several leased data centres such as the Zhongjiu Huaqiao Data Systems Co., Ltd. and Kunshan Data Centre.

When it comes to technologies employed in the data centres, Tencent's fourth-generation T-block data centre energy saving technologies, including (i) High Voltage Direct Current (HVDC) technology for electrical systems; (ii) indirect evaporative cooling units; (iii) Tencent internet data centre ("IDC") smart maintenance and control system; and (iv) fully commercialised project delivery solution, have been widely deployed on Tencent's large-scale data centre in Qingyuan, Yizheng, Zhangjiakou etc.

In terms of self-generated renewable energy for self-use, we have started to build rooftop photovoltaic power generation system on data centre campuses that are suitable for the construction of distributed solar photovoltaic power systems, such as those in Qingyuan, Yizheng, Huailai, etc. The installed capacity of a single campus is about 13MWp, with an annual power output of about 12 million kWh, which could fully meet the power demand of the office and partial power demand of the data centres on the campus.

The annual average power usage effectiveness ("PUE") of the data centres located in low-temperature climate zone is less than 1.25. In the future, with the construction of our large data centre campus and the application of T-block products and other energy-saving technologies, the annual average PUE of our new large data centre campus will be controlled below 1.20; according to our test data in the fourth quarter of 2020, the PUE of Tencent's liquid-cooled technology pilot project on a campus in Guangdong reached 1.07.

In terms of the treatment of solid waste in the data centres (lead-acid battery, etc.), Tencent and its suppliers have entered into agreements which guarantee that 100% of such waste will be handled in strict compliance with relevant regulations. In terms of water conservation in data centres, we are preparing to initiate research on water-saving air conditioning, water recycling/sewage treatment in data centres.

For our proprietary T-block, Mini-TB, Tencent IDC smart maintenance and control system and other IDC products, we will export our expertise to support industry partners. At the same time, we have set up a R&D team to develop new data centre software and hardware solutions to address industry pain points hoping to provide targeted technical and product support and services in 2021.



Environmental, Social and Governance Report

In 2020, we have formulated environmental targets for the data centres, and the progress is shown in the table below.

Targets

Progress in 2020

For any given year, the average annual PUE of self-built data centres will be no higher than 1.35.

The target for 2020 has been achieved

For any given year, at least one more data centre obtains ISO 50001 or GB/T23331 energy management system certification.

The target for 2020 has been achieved

For any given year, the waste hard disk drives are 100% collected by qualified vendors after destroyed for harmless disposal.

The target for 2020 has been achieved

For any given year, the waste lead-acid accumulators in self-built data centres are 100% collected by qualified vendors for harmless disposal.

The target for 2020 has been achieved

The Environment and Natural Resources

Our main impact on the environment and natural resources is the emissions and resources consumed in operations. Relevant conventional policies and measures have been detailed in the section captioned “Energy Saving and Emission Reduction”.



Environmental, Social and Governance Report

Environmental Performance Summary

Unless otherwise specified, the following data covers Tencent's major office buildings and the main data centres in the Mainland of China.

1. Emissions

1.1 Office buildings

Indicators	For the year ended 31 December		
	2020	2019	2018
Total GHG emissions (Scopes 1 and 2) (tonnes)	109,712.99	113,501.50	102,831.74
Direct GHG emissions (Scope 1) (tonnes)	3,756.48	3,785.86	2,554.31
Including: Gasoline (tonnes)	130.83	197.25	191.00
Diesel (tonnes)	7.41	10.87	11.07
Natural gas (tonnes)	3,618.24	3,577.74	2,352.24
Indirect GHG emissions (Scope 2) (tonnes)	105,956.51	109,715.64	100,277.43
Including: Purchased electricity (tonnes)	105,956.51	109,715.64	100,277.43
Total GHG emissions per person (tonnes / person)	1.65	1.90	2.01
Total GHG emissions per square meter of floor area (tonnes / square meter)	0.06	0.07	0.09
Hazardous waste (tonnes)	1.34	2.40	2.51
Hazardous waste per person (tonnes / person)	0.00002	0.00004	0.00005
Non-hazardous waste (tonnes)	5,805.93	5,227.11	4,566.52
Non-hazardous waste per person (tonnes / person)	0.09	0.09	0.09

1.2 Data centres

Indicators	For the year ended 31 December		
	2020	2019	2018
Total GHG emissions (Scopes 1 and 2) (tonnes)	821,052.60	743,287.01	612,521.16
Direct GHG emissions (Scope 1) (tonnes)	333.31	316.35	36.76
Including: Diesel (tonnes)	333.31	316.35	36.76
Indirect GHG emissions (Scope 2) (tonnes)	820,719.29	742,970.66	612,484.40
Including: Purchased electricity (tonnes)	820,719.29	742,970.66	612,484.40
Hazardous waste (tonnes)	71.89	8.00	–
Non-hazardous waste (tonnes)	3,271.70	1,811.27	1,350.76



Environmental, Social and Governance Report

Note:

1. Due to the nature of the business, the material air emissions of the Group are GHG emissions, arising from fuels and purchased electricity produced from fossil fuels.
2. The Group's GHG inventory includes carbon dioxide, methane and nitrous oxide. GHG emissions data for the year ended 31 December 2020 is presented in carbon dioxide equivalent and is calculated based on the "2019 Baseline Emission Factors for Regional Power Grids in China for CDM and CCER Projects" issued by the Ministry of Ecology and Environment of China, and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" issued by the Intergovernmental Panel on Climate Change (IPCC).
3. Diesel is consumed by backup power generators.
4. Hazardous waste produced by the Group's office buildings mainly includes waste toner cartridge and waste ink cartridge from printing equipment. Waste toner cartridge and waste ink cartridge are centralised and disposed of by printing suppliers. Such data covers all office buildings of the Group in the Mainland of China.
5. Non-hazardous waste produced by the Group's office buildings mainly includes domestic waste and non-hazardous office waste. As domestic waste is disposed of by the property management companies and kitchen waste recycling vendors and cannot be measured by us, domestic waste is estimated with reference to "Handbook on Domestic Discharge Coefficients for Towns in the First Nationwide Census on Contaminant Discharge" published by the State Council. Non-hazardous office waste is centralised for disposal by vendors, hence such data covers all office buildings of the Group in the Mainland of China.
6. Hazardous waste produced by the Group's data centres mainly includes waste lead-acid accumulators. Waste lead-acid accumulators are disposed of by qualified waste recycling vendors.
7. Non-hazardous waste produced by the Group's data centres mainly includes waste servers and waste hard drives. Waste servers and destroyed waste hard drives are centralised and recycled by waste recycling vendors. Such data covers all the Group's data centres.
8. The number of people used in the calculation of emission density, resource density and domestic waste estimation is the annual average number of people working in office buildings.



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2. Use of Resources

2.1 Office buildings

Indicators	For the year ended 31 December		
	2020	2019	2018
Total energy consumption (MWh)	208,386.38	205,092.26	167,488.48
Direct energy consumption (MWh)	19,066.80	19,144.17	12,852.04
Including: Gasoline (MWh)	534.45	805.77	780.24
Diesel (MWh)	28.18	41.33	42.10
Natural gas (MWh)	18,504.17	18,297.07	12,029.70
Indirect energy consumption (MWh)	189,319.58	185,948.09	154,636.44
Including: Purchased electricity (MWh)	189,319.58	185,948.09	154,636.44
Total energy consumption per person (MWh / person)	3.13	3.44	3.28
Total energy consumption per square meter of floor area (MWh / square meter)	0.12	0.12	0.14
Running water consumption (tonnes)	1,315,803.67	1,283,749.73	973,413.06
Running water consumption per person (tonnes / person)	19.74	21.52	19.07
Reclaimed water consumption (tonnes)	10,985	4,076	5,461

2.2 Data centres

Indicators	For the year ended 31 December		
	2020	2019	2018
Total energy consumption (MWh)	1,515,181.56	1,301,161.66	938,988.70
Direct energy consumption (MWh)	1,267.68	1,203.16	139.82
Including: Diesel (MWh)	1,267.68	1,203.16	139.82
Indirect energy consumption (MWh)	1,513,913.88	1,299,958.50	938,848.88
Including: Purchased electricity (MWh)	1,513,913.88	1,299,958.50	938,848.88
Average PUE	1.32	1.35	1.37
Running water consumption (tonnes)	2,193,528.43	1,466,760.63	933,813.00



Environmental, Social and Governance Report

Note:

1. The scope of use of resources data is appended to include four additional office areas in 2020.
2. 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 2589-2008)”.
3. The Group’s water supply resources are from the municipal water supply and there is no issue in sourcing water.
4. Reclaimed water consumption is the reclaimed domestic water treated by the wastewater treatment system equipped at Tencent Binhai Towers. The reclaimed water system of Tencent Tower A and Tower B in Chengdu has been suspended as of this reporting year.
5. Data of diesel consumption reported above only covers the data centres whose diesel fees are directly borne by the Group.
6. Average PUE is the average of the annual PUE of the data centres. PUE, an indicator of the power efficiency of a data centre, is the ratio of total facility energy consumption over IT equipment energy consumption. Since 2020, we started reporting on the overall annual average PUE for data centres, and no longer report on the annual average PUE range for data centres (the range was 1.27 to 1.47 for 2018 and 1.26 to 1.52 for 2019), and we have restated the PUE data for 2018 and 2019 accordingly.
7. Data of running water consumption reported above is the water consumption data provided by operators. The scope of the running water consumption data that can be provided by operators expanded during the year, so the data of running water consumption in data centres for the current year increased compared to those from previous years, and there is no direct comparability with previous years’ data.
8. Data of package materials is not applicable to the Group.



WORKPLACE

Employment and Labour Guidelines

Employment, Equal Opportunities and Diversity

In accordance with the *Labour Law of the People's Republic of China* (the "Labour Law") promulgated on 5 July 1994 and amended on 29 December 2018, and the *Labour Contract Law of the People's Republic of China* (the "Labour Contract Law") promulgated on 29 June 2007 and amended on 28 December 2012, while hiring employees, we shall not discriminate against any applicants due to their nationality, race, gender and religion, we shall enter into written employment contracts with each employee. We have entered into employment contracts with all employees. Our employment practice complies with applicable laws and regulations (including those which prohibit underage and forced labour) and does not discriminate on the grounds of gender, race, ethnicity, disability, age, religious belief, sexual orientation or family status. In 2020, we did not find any discrimination situation in our employment practice. Diversity is well supported in our corporate culture. We support employees who wants to start families by providing maternity/paternity/breastfeeding leave, flexible working hours and location arrangements, family insurance, etc. Through the "WomenInTech" program, we promote the stories of outstanding female employees in the Company and leverage the power of role models to motivate female employees.

We were awarded by Zhaopin.com as the China Best Employer in 2020. We have also been voted as the best employer in the PRC for 15 consecutive years since 2006 in a survey jointly conducted by Zhaopin.com and the Institute of Social Science Survey, Peking University.

Labour Standards

In accordance with the Labour Law, other than employers engaged in industry of art, sports and special skill, no employer shall recruit juveniles under the age of 16; employers shall respect the willingness of an employee to enter into an employment contract and shall not force or threaten employees into work by means of violence, threat of violence or deprivation of personal freedom. Our recruitment process strictly abides by the guidelines of the Tencent Human Resources Policy. Every job applicant is asked to provide his/her education background, qualification and job experience, which is reviewed by the human resources department and verified by a due diligence agent. This allows us to hire qualified employees in accordance with job requirements and comply with prohibitions against underage.

Employee Departure

In accordance with the Labour Law and the Labour Contract Law, the employment contracts we enter into with our employees include the term of employment and the conditions for termination of employment. We have strictly complied with the aforesaid requirements and have entered into written or electronic employment contracts with all employees detailing duration of the employment and the grounds for termination of the employment.



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We value our relationship with our employees and handle employee departure (whether by resignation or dismissal) strictly in accordance with applicable laws and regulations. We arrange an exit interview with each of the departing employees to understand the reasons for his/her departure and welcome any suggestions for improvement.

Performance Evaluation and Promotion

We have a complete performance management system that adheres to the objective and impartial principles of performance evaluation. Every six months, employees self-evaluate their performances, and then the supervisor of each employee refers to the multi-dimensional feedback to evaluate the performance of the employee. At the end of the assessment, the employee will discuss, review, and update the performance goals with the supervisor. At the same time, we have formal channels for employees to request for re-assessment of performance. Supervisors are encouraged to give constructive feedback to employees from time to time to help employees' personal growth. We also organise performance management and promotion experience sharing as well as related courses to help employees achieve career advancement. Employees may apply for promotion during 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. The promotion review process is impartial and open, and there is also a formal channel for employees to request for re-assessment through the internal promotion management platform. Relevant internal committees will evaluate feedback, and we strictly respect and protect employee privacy. The promotion review is conducted in compliance with applicable laws and regulations on the fair treatment of employees.

Compensation and Benefits

In accordance with the Labour Law and the Labour Contract Law, the wage paid to employees shall not be lower than the local standards on minimum wage. Wages shall be paid to employees on a monthly basis with valid local currency. The wages payable to employees shall not be withheld or delayed without good reason. We strictly comply with the Labour Law requirements and provide employees with competitive compensation and benefits.

Compensation

We are committed to providing competitive compensation and employee benefits to attract and retain talent. The remuneration and bonus systems are performance-based and designed to reward employees with outstanding performance and potential for growth. We have also set up several share-based compensation plans (including share option schemes and share award schemes).

Benefits

The basic benefits system was built and is maintained in accordance with relevant laws, regulations and market practice. In addition, certain special benefits are created to motivate employees and implement our strategy.



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We care for the growth of our employees and provide benefits with a Tencent cultural theme. For example, special occasions for an employee (e.g. work anniversaries, wedding and holiday festivities) are celebrated with co-workers in the office. Employees have the flexibility to choose the most suitable insurance plans and benefits for themselves and their families.

Work-Life Balance

In accordance with the Labour Law and the Labour Contract Law, the Group shall comply with the regulations on working hours, work breaks and vacation days and include such terms in the employment contract. We have implemented vacation day schedules and initiatives such as flexi-time arrangements and volunteer service days off etc. to help employees strike a good work-life balance. The leave scheme allows employees to enjoy annual leave, fully-paid sick leave, half-paid leave of absence and fully-paid special Chinese New Year leave which are above the statutory standard. Also, female employees are entitled to take fully-paid maternity leave, while male employees are also entitled to take fully-paid paternity leave. Employees can also apply for one day of fully-paid volunteer service leave per year. These labour policies all comply with the requirements under the Labour Law and the Labour Contract Law.

We strive to create work-life balance and an inviting work environment for employees. We also organise a wide variety of recreational and leisure activities (e.g. running, photography, music, dance, language classes) for employees. We have provided various recreational and leisure facilities in our Shenzhen headquarters, such as a 300-meter running track, indoor rock-climbing wall, table tennis tables, pool tables, a badminton court and a full-sized basketball court, etc.

Communication

We are committed to establishing various comprehensive communication channels for our employees. There are currently annual meetings of the Company and various departments, face-to-face discussion forums, special magazines, and internal social media platforms for employees and management. Through these communication channels, the Company conveys and strengthens corporate strategy and culture, and encourages employees to speak freely. We conduct a company-wide employee satisfaction survey through an independent third party every year, based on completely anonymous feedback, we collect employees' suggestions for the Company's development in an all-round way as a basis for performance improvement. In 2020, a total of 37,896 employees participated in responding to the survey, with an effective answer rate of 91%. The employee satisfaction score has improved as compared to 2019.



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Occupational Health and Safety

In accordance with the Labour Law, we employ a labour safety and hygiene policy. The policy aims to prevent accidents in the workplace and reduce occupational hazards. In accordance with the *Social Insurance Law of the People's Republic of China* promulgated on 28 October 2010 and amended on 29 December 2018, we pay full allowance for social insurance for our employees. The social insurance includes endowment insurance, medical insurance, work injury insurance, unemployment insurance and maternity insurance. We provide various supplementary insurance benefits (including medical insurance, critical illness insurance, accident insurance and life insurance) for employees and their families. Throughout 2020, we have strictly complied with the relevant laws and regulations regarding occupational health and safety.

We strive to provide a safe and comfortable work environment for our employees. There are established security and fire safety systems as well as food safety monitoring systems. We invite third parties to conduct security risk audits on our premises every year, discover hardware defects based on risks, and identify defects and deficiencies in the operation management system based on risks, so as to address hidden risks and prevent problems before they occur.

We formulate detailed emergency plans for fire safety, natural disasters, personal injury, safety order, etc., and conduct regular drills and simulation tests to ensure implementation and continuous optimisation.

We adhere to “Tech for good, mutual help and assistance”. In case of any medical emergency within workplace, we have deployed the automated external defibrillator (AED) emergency system in the office in 2020, formulated emergency plans and continued to test and optimise the mechanism thereby ensuring employees’ safety under emergency circumstances.

We have appointed a team to attend to the physical and mental health of employees. We arrange annual medical check-ups for employees and organise health seminars, fitness sessions, on-site medical consultations as well as face-to-face and telephone counselling from time to time.

In the face of the COVID-19 pandemic, we immediately implemented a work-from-home policy and deployed various technical and human resource support, such as technology assistance in setting up remote access to office phones and equipment, as well as version upgrades and bandwidth expansion for productivity and collaboration tools such as WeCom, Tencent Meeting and Tencent Docs. Our teams worked relentlessly to source and secure supply of urgent resources such as facemasks for employees. We strived to provide necessary medical support and/or support for quarantine arrangement for employees in need. We also helped employees cope with pandemic-related emotions and mental health issues via online consultation programs. Through Weixin Mini Programs, Official Accounts and WeCom, we enabled employees to report health related information, e.g., contact with confirmed/suspected COVID-19 cases, so as to minimise transmission risks and provide timely assistance. We also developed Anti-COVID handbooks and educational videos to enhance employees’ awareness of prevention measures.



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As businesses gradually resumed to normal in China, we applied strict procedures to ensure a safe working environment, including extra disinfection of air conditioning system, daily temperature checking and social distancing policies in public areas such as elevators, canteens and meeting rooms. For example, we closed the office canteens during pandemic period and arranged delivery of separately packaged breakfast and lunch boxes to the desks of each staff who worked in the office, to minimise transmission risks. We closely monitored the local pandemic situation and adjusted our work-from-home or split-team arrangement in order to ensure employees' safety and health.

Employee Development and Training

Employee talent is our most important asset. We are committed to helping our employees realise their potential. We make significant investments in employee development and training and we encourage employees to attend external and internal trainings.

We have adopted relevant policies to ensure that employee training is provided in a user-friendly format. For example, supervisors must assist in designing professional development plans for employees and evaluating employee training effects. To ensure the quality of training, we have formulated a policy that contains the instructors' qualifications and experience requirements and the goals of the plan and cooperated with educational institutions to develop training plans.

In 2007, we founded our own training university, Tencent Academy. It offers different training programmes at each stage of an employee's career, including an induction, on-the-job training and leadership training for different levels, and carries out educational qualification improvement support programs for all employees, such as supporting employees to obtain applicable professional certificates, etc. As our employees get more experienced and are promoted, we also provide them with relevant corresponding and consistent training, including general courses, professional courses, and subject lecture sharing targeted for different levels. Employees can choose suitable courses by themselves and develop their own learning plans. In addition, Tencent Academy has set up an online learning platform and a mobile learning system in order to allow employees to learn anytime and anywhere. In 2017, one of our training programmes won the Excellence in Practice Award by the Association for Talent Development.

To help employees in different positions cope with professional needs, Tencent Academy offers courses on product (providing in-depth product research for different product teams), operational skills, technology, data analysis, marketing, design, risk management, customer service etc. As of 31 December 2020, Tencent Academy offered over 500 live courses and over 10,000 in-person courses and employed over 1,500 in-house part-time instructors. The average in-house training hours per employee was 32 hours and around 98% of employees received training.

Besides, we also provide employees with an internal expert platform, so that senior employees or employees with professional knowledge in a certain field can freely share their experiences with everyone, and employees can also establish contacts with internal experts through this platform. We also intend to make available our training resources to business partners and other companies in the industry in order to promote industry training resources sharing and capacity building.



Environmental, Social and Governance Report

Workplace Performance Summary

The statistical scope of employee data listed in the following table includes the number of regular employees employed in the businesses directly operated and managed by the Company:

1. Employment

Indicators		As of 31 December 2020
Total number of employees		51,350
Number of employees by gender	Male	36,633
	Female	14,717
Number of employees by age group	Under age 30	20,548
	Age 30 to 50	30,714
	Above age 50	88
Number of employees by geographical region	The Mainland of China	50,634
	Hong Kong, Macao and Taiwan	216
	Other countries and regions	500
Number of employees by management level	Management	5,077
	Non-management	46,273
Total turnover rate		12.0%
Employee turnover rate by gender	Male	12.0%
	Female	11.9%
Employee turnover rate by age group	Under age 30	12.2%
	Age 30 to 50	11.9%
	Above age 50	9.0%
Employee turnover rate by geographical region	The Mainland of China	12.0%
	Hong Kong, Macao and Taiwan	10.3%
	Other countries and regions	9.7%

Note:

Employee turnover rate = number of employees who leave employment in the reporting year * 2 / (number of employees at the beginning of the reporting year + number of employees at the end of the reporting year). Employee turnover reflects the number of employees who leave employment voluntarily or due to dismissal, retirement or death in service.



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2. Health and Safety

Indicators	2020	2019	2018
Number of work-related fatalities	0	0	0
Work-related fatality rate (%)	0	0	0
Working days lost due to work-related injury (days)	281	1,058	957

Note:

1. The work-related fatalities data and injuries data both refer to the work-related death and injuries accidents identified by the Human Resources and Social Security Bureau.
2. Work-related fatality rate = total number of work-related fatalities / total number of employees.

3. Training

Indicators		As of 31 December 2020
Percentage of employees trained by gender	Male	98.3%
	Female	98.0%
Percentage of employees trained by management level	Management	97.0%
	Non-management	98.3%
Average training hours of employees by gender	Male	32
	Female	33
Average training hours of employees by management level	Management	26
	Non-management	33

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



Environmental, Social and Governance Report

OPERATING PRACTICES

Supply Chain Management

Our supply chain management programme attaches supreme importance to managing the ethics risk associated with the relationship between our procurement employees and our business partners. It also focuses on teaching those employees who are involved in procurement to recognise and mitigate the inherent risks.

We have formulated a code of conduct to standardise the behaviour of employees engaged in procurement activities. To minimise the ethics risks, such employees are also required to declare any relationship they may have with our suppliers in writing.

Suppliers which are formally engaged by the Group's procurement department are required to agree to the terms of a declaration and undertaking in relation to anti-commercial bribery in conducting business with the Group (the "Anti-commercial Bribery Declaration"), as well as the terms of a declaration in relation to labour rights, health and safety and environmental protection. Such declaration and undertaking also explicitly require the suppliers to comply with all the requirements of local laws and regulations. During the year ended 31 December 2020, all domestic suppliers which were formally engaged by the Group's procurement department had completed the self-assessment and signed the Anti-commercial Bribery Declaration.

We have maintained a database of qualified suppliers which are ready to take orders from us. The Group has also launched a new supplier collaboration system for the online management of the whole procurement life cycle, covering the aspects of finding and selecting suppliers, and evaluating performance and terminating engagement of suppliers.

We have an internal policy which sets out the procedures for supplier onboarding. The procurement department looks for qualified suppliers in the market and conducts standard or simplified verification on the suppliers depending on the duration of the cooperation, the order volume and the nature of the request. Before engaging a supplier, we will conduct due diligence (including qualification check, site visit etc.) on the supplier. Staff participating in due diligence include members from the procurement department, the requesting department, and the specialised department (if applicable). The results will be reported to the procurement department for final determination.

We normally ask for price quotations from at least three vendors. Other factors including delivery time and technical capabilities of the vendors etc. will be taken into consideration when selecting vendors. 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/services, the particular procurement arrangement with such vendor will require special approval with a sufficient and reasonable justification provided by the technical department or the requesting department.



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We evaluate the performance of our suppliers from time to time and take appropriate steps to address any issues with the quality of the suppliers as part of our supply chain management. In 2020, we completed performance evaluation on about 400 suppliers. For suppliers with unsatisfactory performance, subject to applicable contractual arrangements, we may (i) discuss with them on the remedial steps to be taken by them; (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: (i) we suffer from material economic losses as a result of the delayed delivery, quality issue or breach of contract by the supplier; (ii) the supplier has received the lowest rating in the rating scale for two consecutive quarters; and (iii) the supplier is in serious breach of business ethics.

When engaging gaming-related suppliers, in order to minimise the risk of IP infringement in the procurement process, we have developed a set of process specifications for potential suppliers to conduct self-assessment on their commitment to IP protection and other aspects. All suppliers involved in content output must complete the video learning courses related to IP protection and sign an “Undertaking Related to Risk Management and Control of Game Content”. We also pay attention to selecting environmentally friendly products and services when selecting suppliers related to office buildings. For example, we have required all self-built office buildings to obtain the ISO 14001 environmental management system certification, and its system certification is checked by the administrative department every year. When we employ computer room suppliers, we conduct site visit, pay special attention to the supplier’s PUE. In addition, we also have our own monitoring system and measure the PUE of suppliers every month to ensure that suppliers can meet the standards we set.

Number of Suppliers

	As of 31 December 2020
Number of suppliers by geographical region	
The Mainland of China	36,991
Hong Kong, Macao and Taiwan	1,517
Other countries and regions	3,726

Note: “Number of suppliers” refers to the number of active suppliers in the supplier database, and “geographical region” refers to the place where the suppliers are registered.



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PRODUCT RESPONSIBILITY

We strive to provide the best user experience and pay high attention to the quality of our products and services.

In accordance with the *Anti-monopoly Law of the People's Republic of China* which took effect on 1 August 2008 and the *Anti-monopoly Guidelines of the Anti-monopoly Commission of the State Council on Platform Economy* promulgated on 7 February 2021, we are obliged to promote the orderly, innovative and sound development of platform-based economy through fair competition and to safeguard the welfare of consumers and the public interests of the society. We proactively comply with such regulatory requirements.

In accordance with the *Decision of the State Council on Implementation of Access Management of Financial Holding Companies* and the *Provisional Administrative Measures of Financial Holding Companies*, under certain circumstances, a non-financial enterprise, natural person or recognised legal person which holds controlling shares in or actually controls two or more types of financial institutions, shall submit an application to the People's Bank of China for approval to establish a financial holding company, and the People's Bank of China will be responsible for regulating financial holding companies in accordance with the law, examining and approving the establishment, change, termination and business scope of a financial holding company. We proactively comply with such regulatory requirements.

We conduct strict reviews of our product and service offerings and related sales, marketing and advertising strategies and materials to ensure their compliance with applicable laws and regulations. We also build in safeguards on data security and user privacy, product health and safety, customer complaints, advertising content and IP rights as described below.

User Privacy and Data Security

We closely monitor the relevant new domestic and international laws and regulations, and timely update our compliance and legal know-how, in order to implement the applicable legal requirements into the Company's products and business processes as soon as possible, to ensure compliance with the latest legal requirements.

The domestic and overseas laws and regulations we follow include *Civil Code of the People's Republic of China*, *Criminal Law of the People's Republic of China*, *Cybersecurity Law of the People's Republic of China*, *E-commerce Law of the People's Republic of China*, *Law of the People's Republic of China on the Protection of Consumer Rights and Interests*, *Personal Information Protection Law (Draft)*, *Data Security Law (Draft)*, *General Data Protection Regulation*, *California Consumer Privacy Act*; administrative regulations such as *Telecommunications Regulations*, *Administrative Measures on Internet Information Services*; departmental rules such as *Provisions on Protection of Personal Information of Telecommunication and Internet Users*, *Methods for Identifying Unlawful Acts of Applications (App) to Collect and Use Personal Information*, and national standards such as *Information Security Technology – Personal Information Security Specifications*, *Information Security Technology – Guide to the Personal Information Security Impact Assessment*, *Circular on Issuing the Practical Guide to*



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Cyber Security Standards: Guide to Frequently Asked Questions and Protection of Personal Information by Mobile Internet Applications (App), Circular on Issuing the Practical Guide to Cyber Security Standards: Guide to Self-evaluation of Collection and Use of Personal Information by Mobile Internet Applications (App).

In accordance with applicable data protection laws, as an Internet information service provider, we obtain users' consent before collecting and using users' personal information. We stipulate rules on the collection and use of users' personal information and publicise the same in the places and websites where we operate or serve.

We regard user information security and privacy protection as our lifeline. We take security, autonomy, compliance and transparency as the goal of Tencent's privacy protection. Security means that we have an adequate security mechanism and security technology system to protect users' data security in an all-round way; autonomy means that we integrate the concept of privacy protection into product design so that users can manage their privacy settings independently with convenient privacy settings design; compliance means that we comply with the requirements of laws and regulations to protect users' personal information rights; transparency means that through privacy policies and privacy protection guidelines, we improve the transparency of privacy protection and protect users' right to know.

As for privacy protection, we adhere to the following principles:

1. Safe and reliable: we try our best to prevent user data leakage, damage and loss through reasonable and effective data security technology and management process.
2. Independent choice: we provide convenient data management options for users to make appropriate choices and manage personal data.
3. Protect communication secrets: we strictly abide by laws and regulations, protect users' communication secrets, and provide secure communication services.
4. Reasonable and necessary: we only collect necessary data so as to provide better services to users.
5. Clarity and transparency: we strive to introduce the privacy policy to users in simple language for easy understanding of our data processing methods.
6. Integrate privacy protection into product design.



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We believe that user data security and privacy protection are the primary premises for creating secure, high-quality products and user experience. We insist on protecting the privacy and security of users' data and always insist on using data in order to benefit users, striving to improve products and services, and strictly complying with applicable laws and regulations. We incorporate the applicable laws and regulatory requirements on privacy protection into our internal policies, taking into account our products and services' specific characteristics and the relevant social responsibilities. We have also developed specific systems and processes to collect and process user data to ensure that our products and services comply with applicable laws.

We have considered and deployed user privacy protection in the early stage of designing products and services. This concept inspired us to formulate and implement Tencent PBD privacy protection – P stands for Person, that is, to protect user privacy as the core value. B stands for Button, which provides users with reasonable and efficient privacy protection through “privacy button” (product design), symbolising user control. We try our best to make users easily manage their personal data through simple key steps. D stands for Data, which ensures data security in all aspects. We have advanced and complete data security technologies and management measures. These technologies and measures ensure that we have effective security risk monitoring, defence and response mechanisms to protect user data in an all-round way. PBD outlines our thinking and practice on user data security and privacy protection.

We use Tencent Privacy Protection Platform (<https://privacy.qq.com/>) to provide users with unified access to query privacy protection guidelines for multiple Tencent products, to facilitate users to better manage information authorisation, to modify privacy settings, etc. At the same time, the platform also works with Tencent customer service to create a personal information protection zone to provide users with various channels to reflect privacy issues that they have encountered. Our privacy protection policy is also published on the product's official website and app which is also available for access on the Tencent Privacy Protection Platform. Users can also use the feedback button in the website and app and our unified privacy feedback email (Dataprivacy@tencent.com) at any time to submit complaints or make inquiries.

We and our employees keep strict confidential the personal information of users collected and used during the provision of service, and do not leak, distort, damage, sell or provide the same to others illegally. We establish and perfect the user information protection system by hierarchically managing the access rights of internal staff to ensure the security of the personal information collected by us and to prevent any leakage, damage or loss of the information. We provide a quick and convenient channel for employees to look up the Company's data security policy through internal communication tools so that employees can timely confirm whether their behaviour meets the Company's security policy requirements. If employees come across potential data security violations, they can also report internally using the internal communication tools or unified reporting system; in case of violations, the Company will take strict disciplinary measures, including but not limited to criticism notice, punishment, etc.



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We have a dedicated privacy team within the legal department which is responsible for handling data protection matters. We evaluate specific products from the perspective of privacy protection on a regular or ad-hoc basis and perform privacy risk assessments before the launch of new products to ensure that our products are not exposed to the risk of privacy infringement or leakage of user data.

At the same time, our Technology and Engineering Group, or TEG, is responsible for managing the data security of our products and platforms. By benefitting from the technical support of Tencent United Security Laboratory (covering seven professional laboratories, focusing on security technology research and construction of security attack and defence system, and covering key Internet fields such as connection, system, application, information, equipment, cloud, etc.), TEG has information security department and other specialised teams and provides a full range of security protection for the Group's products and services.

We have developed a comprehensive proactive and reactive defence programme. We take the initiative to enhance the detection capability of basic security and in-depth defence and implement strict monitoring, timely alarm and blocking, regular monitoring and auditing, and tracing abnormal behaviours on the security system and database. We also take the initiative to conduct blue army offensive and defensive tests to identify potential risks to current systems and security capabilities. Our safety emergency response team also makes timely passive defence and deployment through 7 x 24 emergency response mechanism. In addition, through Tencent Security Response Center (TSRC), we invite global “white-hat hackers” and security experts to provide us feedback on security loopholes and jointly defend user security. Our in-house expert team also exports security solutions to the global security community through TSRC. We provide data privacy and information security training to all employees (including full-time, part-time and interns), to improve employee awareness and establish an enterprise culture that attaches importance to privacy protection and information security.

We also actively communicate with various national ministries and commissions such as the Cyberspace Administration of China, the Ministry of Industry and Information Technology of the People's Republic of China, the Ministry of Public Security of the People's Republic of China and the Standardization Administration of China to seek guidance and strive to do a better job in data privacy protection. In 2020, various national ministries and commissions updated the law enforcement frequently, and we kept in touch with the Ministry of Industry and Information Technology, the State Internet Information Office and other ministries and commissions to follow up the latest developments and ensure the compliance of our business.

Furthermore, we actively participate in shaping the development of the industry framework on privacy protection. For example, our privacy experts are members of the International Association of Privacy Professionals. We have obtained certification from the International Organization for Standardization (ISO) and other domestic and international certifications for our network and data security management system.



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For example, our Tencent Cloud business has been committed to improving the cloud security system, building security compliance capabilities, and setting cloud security and big data security standards. With the continuous evolution of cloud computing and security technology, Tencent Cloud has established an efficient security internal control system, and improved its compliance foundation from the aspects of system process and control activities etc. Our security management system has also received accreditation such as China Network Security Level Protection Assessment, Netcom Cloud Service Security Assessment, ISO 27001 Information Security Management System Certification, CSA STAR Cloud Security Management System Certification, ISO 27701 Certification for Personal Information Security Management System, ISO 27018 Public Cloud Personal Information Protection Certification, ISO 27017 Cloud Service Information Security Control Implementation Guidelines, ISO 20000 IT Service Management System Certification, ISO 9001 Quality Control System Certification, ISO 22301 Business Continuity Management System Certification, KISMS Korean Information Security Management System Certification, Singapore Multi-Tier Cloud Security (MTCS) T3 Certification, PCI DSS Payment Card Industry Data Security Standard Certification, CISPE European Cloud Computing Service Provider Alliance Accreditation, German Cloud Computing Compliance Standards Directory (C5) Audit, Service Organisation Control Report (SOC Report), Singapore Banking Association OSPAR Audit, etc.

In 2020, the Company's Technical Committee led the establishment of the data operation and maintenance management security project, continuously strengthening and improving the defence in-depth system, further consolidating a number of industry-leading security solutions, and providing more reliable, safe and systematic security guarantee for enterprises and users. We will integrate our excellent internal security practice experience and technology through Tencent Cloud's security products and services (such as the intelligent gateway, cloud firewall, DDoS protection, network intrusion protection, anti-fraud, etc.) to serve and empower many Tencent Cloud users. In addition, we have also made productive progress in the research of advanced security attack and defence technology, network security practice, and security ecology construction. We have established close cooperation with many security teams in the industry, and are committed to improving the security of Tencent products and creating a more secure Internet ecology.

At the same time, we also actively explore and develop technology to help improve the data privacy protection level of the Company's business in 2020. For example, we have developed a data privacy compliance assessment system, enabling the Company's data privacy protection with the help of the Company's major security technology laboratories' superior technical capabilities.

We are also actively integrating the Company's technical force to develop cutting-edge technologies and application platforms such as privacy computing and federated learning etc. After more than a year of technological breakthrough, Tencent Angel PowerFL platform has made breakthroughs in security, performance and ease of use etc. It has reached the industry-leading level in the federated learning field. It has also been implemented in multiple application scenarios of risk control, marketing recommendation and federated advertising etc. It provides scientific and cutting-edge technical solutions for business development and privacy protection and enables multi-party cooperation on the premise of protecting user privacy and data security.



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Product Safety and Quality¹

Games

One of our important businesses is our online games business. We need to comply with the relevant laws, regulations and policy requirements in relation to online games in the PRC, mainly including the *Law of the Protection of Minors*, *Telecommunication Regulation of the People's Republic of China*, the *Administrative Regulations on Publishing*, the *Administrative Measures on Internet Information Services* and the *Provisions on the Administration of Online Publishing Services*. In accordance with the above regulations, when we operate value-added telecommunications business, we are required to apply to administrative authorities of information industries to obtain a Value-Added Telecommunication Business Operation Permit. When we operate online publishing service for online games, we must obtain an Online Publishing Service License.

We have been actively implementing various measures to ensure compliance with the relevant laws, regulations and policies. For instance, we have already obtained the relevant credentials for publishing and operating online games, such as the Value-Added Telecommunication Business Operation Permit and the Online Publishing Service License. Meanwhile, in our business operation, we are among the first beginners to actively explore into the field of juveniles' protection.

To safeguard the physical and mental health of online game users and juveniles, we have implemented the real name system and anti-addiction system in accordance with the regulatory requirements of the PRC and strengthened the promotion of healthy games and anti-addiction through various channels. In February 2017, we were the first to launch a series of services on "Tencent Parental Guardian Platform" which assist parents to monitor the gaming habits of their underage children. This is the technical platform aiming to provide assistance to guardians who wish to help their underage children to develop healthy gaming practice in the online game industry. In July 2017, we implemented the Healthy Gameplay System on Honour of Kings, which sends reminders to players or forces them to suspend the game if players spend too much time on the game in one day. In 2018, we upgraded the Healthy Gameplay System, tightened the requirements for identity verification and made the system available for more games. We also launched a customer service which sends reminders when a game player may have engaged in overspending and provides subsequent counselling. In 2019, the Healthy Gameplay System covered all mobile games operated by us in the Mainland of China. In 2020, the coverage of "Tencent Parental Guardian Platform" was expanded to QQ Mini Programs and Weixin Mini Programs and provided users with statistical usage time, duration management, one-click disable and other management functions to provide more comprehensive management tools for parents. Meanwhile, the "family communication" module is opened up to provide effective information for parents through parents' classroom and other ways to help them bridge the "digital divide". In June of the same year, based on "restricting play, charging and curfew" for real name minors, we improved the user identification technology to solve the problem of "children using their parents' identity information to bypass the supervision", and screened the suspected minors. Users who refused or failed to pass the

¹ "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.



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verification were restricted by the Healthy Gameplay System in the game or could not continue to recharge. To prevent parents from performing verification without knowledge, Tencent continues to optimise face recognition measures and has launched multiple functions such as voice and picture double prompt. At present, the aforementioned functions have been applied to more than 100 mobile game products of Tencent games, including Honour of Kings and Peacekeeper Elite. In December 2020, under the guidance of the National Press and Publication Administration, China Audio-video and Digital Publishing Association officially released the group standard of “Age-appropriate Tips for Online Games” (Trial) (hereinafter referred to as “Group Standard”). We participated in the preparation as one of the leading units. The Group Standard divided the scope of the age of minors’ games into three stages, namely 8+, 12+, 16+, and made explicit provisions on the style, embodiment, content and other specific matters of the age prompt diagram. Tencent actively cooperated to promote the pilot implementation of the Group Standard and has completed the adaptation of 10 games, including “Honour of Kings”, “Peacekeeper Elite” and other popular games.

We continue to pay attention to the operation stability, technical reliability, data privacy compliance and content legitimacy of online game products. We establish a complete closed-loop process of full-dimensional audit in advance, real-time monitoring in the event and timely disposal afterwards, and establish a multi-department joint work team to ensure the implementation of relevant requirements and processes.

In addition, the 22nd session of the Standing Committee of the 13th National People’s Congress of the PRC revised and passed the *Law of the People’s Republic of China on the Protection of Minors* on 17 October 2020, which will come into force on 1 June 2021. The newly-revised *Law of the People’s Republic of China on the Protection of Minors* stipulates Internet service providers’ responsibilities and obligations. We are taking forward the implementation of the relevant provisions in a comprehensive manner.

Social Network

According to the provisions of the *Cybersecurity Law of the People’s Republic of China*, any individual or organisation using the Internet shall abide by the Constitution of the PRC and other relevant laws, and shall not use the Internet to fabricate or disseminate false information, disrupt economic and social order, and shall not carry out activities that infringe on the reputation, privacy, IP rights and other legitimate rights and interests of others. Suppose a network operator discovers information that is prohibited by laws or administrative regulations from being released or transmitted, it shall immediately stop transmitting the information, take measures such as eliminating and preventing the spread of information, keeping relevant records, and reporting to the relevant competent authorities. To provide users with healthy and safe platform services, Tencent has been actively implementing various measures to fulfil its platform responsibilities and govern users’ violations of laws and regulations or infringement through social platforms (such as Weixin, QQ, etc.) to ensure compliance with relevant laws, regulations and policies. According to relevant national laws and regulations, and agreements such as WeChat Software License and Service Agreement, WeChat Official Accounts Platform Service Agreement and QQ Software License and Service Agreement, if users spread unlawful information through WeChat personal account, WeChat Official Accounts, QQ and Qzone, once found and proven, the platform will timely block the unlawful content and deal with the relevant accounts and



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relevant chat groups (such as warning, limiting some functions of the account, blocking the account, etc.). Illegal information related to the public welfare and the livelihood of people, including but not limited to the sale of counterfeit medical devices, illicit sales of illegal goods and rumours etc., has been repeatedly countered by the platform after the outbreak of COVID-19 pandemic. At the same time, we attach great importance to the publicity and education of users and prompt users to improve their awareness of risk prevention through “Weixin Safety Centre”, “QQ Security Centre” Official Accounts and other official channels, jointly resist Internet pornography, fraud and other risks, provide users with smooth channels for infringement complaints and reports, and guide users to make complaints and reports on violations of laws, regulations or violations of their legitimate rights and interests through the platform entrance. In 2020, the Group was not aware of any serious violation of the above laws and regulations.

With the development of Mini Programs and Mini Games platform, Tencent continues to optimise the audit standards and inspection mechanism of Mini Programs and Mini Games access. The Company conducts reviews on the developers and application contents of the Mini Programs and Mini Games submitted by developers to access the platform strictly in accordance to legal and regulatory requirements. If developers’ services involve special categories such as medical, financial, and gaming, they shall provide the corresponding qualification and approval documents etc. For developers who fail to provide the corresponding certificates as required, access of their Mini Programs and Mini Games to the platform will be denied. According to users’ complaints and reports on Mini Programs, we will also inspect Mini Programs’ operation from time to time and take corresponding measures for developers who fail to operate legally.

In order to allow minors to grow in a healthy environment, Tencent has launched “underage mode” in a number of products or developed independent versions suitable for minors. For example, when the underage mode has been activated for Tencent Video, Weishi and other products, users’ screen time will be limited and users will be reminded to take rests. When the underage mode has been activated for QQ, the application interface will be more simplistic, and will not show any advertisement, live broadcast, games and other entertainment functions, as well as services that are not suitable for minors such as networking with strangers etc.

A total of 7,293 rumour refuting articles were published on WeChat Official Accounts Platform in 2020, and the rumour refuting pages were viewed 760 million times. At the same time, the rumour refuting assistant Mini Program of WeChat Official Accounts Platform has introduced several third-party scientific research, academic and other authoritative institutions to conduct scientific rumour refutation on various rumours (including official account articles and some widely spread rumour samples) on WeChat platform. In 2020, 54.58 million Weixin users used it. With the mission of “Value for Users, Tech for Good”, the Tencent News Verification Platform aims to create a network-wide rumour refuting content output think tank for verification and confirmation of facts to combat the spread of untrue information on the Internet. At present, the information in the think tank covers food safety, nutrition, health care and other fields.

Weixin/WeChat and QQ each provides a mechanism for users to report any false or improper content transmitted on their platforms. In order to protect users’ original content, Weixin/WeChat has released a new function for Weixin/WeChat official account holders in December 2017, stating the originality of the content generated by Weixin/WeChat, to help effectively identify and prevent copyright infringement.



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In addition, Weixin and QQ have constantly improved their functions to provide a barrier-free experience for the elderly and vulnerable groups, including bigger font, Weixin relatives card, and text extraction function of pictures and expressions for the visually impaired, in order to help the elderly and vulnerable groups integrate into the digital society and bridge the digital divide.

Digital Content

We have always attached importance to the health and safety of the digital content industry, complied with the laws and regulations in China's Internet news, audio-visual and other related business areas, and actively implemented various measures to ensure the development of its business in a compliant manner. At the same time, in the process of business operation, we should take the lead in juvenile protection, and actively explore the practical experience of the industry.

It is worth mentioning that in 2020, Tencent Video's "Little Penguin Paradise" content platform products for minors were upgraded. Through the functions of realisation of innovative interaction ability, high-quality mass video series, five-dimensional knowledge system, green guard mechanism etc, Tencent Video created a one-stop growth space for children from multiple dimensions such as content innovation, intelligence cultivation, health education, etc., to help children and parents learn and progress together. At the same time, we are also well aware of the importance of "health education". In the "Little Penguin Paradise" app, eye protection mode is built-in. It also provides time setting, volume reminder and other functions, creating a healthy viewing environment for parents to rest assured and let children enjoy the process of learning and entertainment more freely. We hope to bring a positive and upbeat guide to the growth of minors through high-quality content experience.

Tencent News continues to invest in original, in-depth content and precipitate user value. In the "White Book on the Social Value of China's Internet Media in 2019", "Research Report on Public Cognition and Information Communication of COVID-19" published by the State Information Center, and the "Survey Report on Credibility of China's Internet Media" released by the Ministry of Industry and Information Technology, Tencent News ranked first in terms of social value, satisfaction and credibility among all commercial media. In terms of the healthy development of content, Tencent News adheres to the profound cultivation of original content, creates high-quality IP, continues to create beautiful content with the brand, and uses the content to achieve a useful link between business and users, to realise the promotion of cognitive value and business value.

FinTech

We have long been committed to providing safe, convenient and professional payment services for Internet users and various enterprises and we continue to comply with relevant laws and regulations. The types of payment businesses include online payment, mobile phone payment and bank card acquisition, and the types of customers include individuals and merchants.

We provide a variety of security products to enhance account security. Our risk control system provides real-time monitoring 24 hours a day to ensure the safety of account funds. Users will be informed of any change in the amount of funds in the account immediately by mobile phone, e-mail and other means. We strictly comply with relevant laws and regulations to provide users with effective privacy protection strategies.



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In addition to payment services, we are also committed to providing customers with safe and stable financial products. In early 2020, we optimised the platform display for financial wealth management products and categorised the financial wealth management products as stable financial wealth management, advanced financial wealth management etc. in order to provide our customers with better quality and more stable financial services. We will continue to conduct self-examination, optimisation and standardisation of our products in accordance with laws and regulations related to financial products, 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*.

Tencent Cloud

Tencent Cloud provides services in accordance to the requirements of the relevant laws and regulations of the jurisdictions where it provides services and adopts technical and other necessary measures to ensure safe and stable operation of the network. Security is the cornerstone of Tencent Cloud. Based on the overall framework of comprehensive planning, through diversified products and security attributes, Tencent Cloud has realised all-rounded protection and deployed security protection at all levels, including physical security, virtualisation security, network security, host security, data security, application security, business security, security audit and security management, forming the whole process of protection before, during and after the event. At the same time, Tencent Cloud also implements corresponding security functions in products at all levels, including authentication, data reliability etc., and continuously optimises its own products.

Since its establishment, Tencent Cloud has been committed to improve the cloud security system, to build security compliance capabilities, and to participate in the formulation of the cloud security standards and big data security standards. With the continuous evolution of cloud computing technology and security technology, Tencent Cloud has established an efficient security internal control system, and improved its compliance foundation from the aspects of system process and control activities. Tencent Cloud has formulated corresponding compliance standards from the aspects of infrastructure security management and interoperability, virtualisation platform management and identity authentication management, and refined specific security compliance control requirements to ensure the effective operation of the entire Tencent Cloud security internal control system. Please refer to the section captioned “User Privacy and Data Security” for more information about cloud service security.



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Customer Service

Internet service

In accordance with *Law of the People's Republic of China on the Protection of Consumer Rights and Interests* promulgated on 31 October 1993 and amended on 25 October 2013, when we provide our customers with goods or service, we adhere to social morality, operate business in good faith, and protect the legitimate rights and interests of consumers. We also seek consumers' opinions on commodities or services provided to them and accept consumers' supervision. In accordance with the *E-Commerce Law of the People's Republic of China*, effective on 1 January 2019, we, as an Internet company, have established an accessible and effective mechanism for receiving complaints and abuse reports, publishing of information on complaints and abuse reporting methods, prompt handling and resolution for complaints and abuse reports. The Company puts great importance on customer service; thus it proactively complies with all relevant laws and regulations regarding customer service. All product departments of the Company conduct regular product research, including online questionnaire, social media, telephone calls, etc. to collect users' feedback on products to understand users' satisfaction and popular opinions, and pay attention accordingly during product designs and updates.

Tencent customer service relies on advanced Internet technology to build an Internet service model that adapts to the development of the Company's business and solves the massive user service needs. Tencent customer service department is supported by professional teams, which are responsible for handling and answering customers' complaints and inquiries about our business.

We have established the following management system to handle complaints from our customers effectively:

1. There is a designated team within the customer service department to handle complaints and deal with compensation requests. The team is responsible for conducting investigation based on the information provided by the complainant, explaining the relevant procedures to the complainant and notifying the complainant of the investigation results with the aim of providing him with a satisfactory solution.
2. We are committed to providing customers with timely solutions and establishing diversified service channels in different ways to cater for different habits of users in different scenarios. At present, Tencent's service channels cover customer service hotline, online customer service, intelligent customer service, Weixin/WeChat and face-to-face talks etc.
3. To provide a better user experience, we have set up a complaint handling programme, which clearly sets out the responsibilities of customer service department and the time required to resolve complaints. In addition, we also help visualise the service entrance scene, so that users can have quick access to customer service in the first instance where problem occurs, and achieve the delivery of service with the shortest service path.



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4. We have strengthened the infrastructure construction of the system. Complaints can be classified according to the degree of urgency and risk, so that the customer service staff can better give priority to relevant cases and handle complaints in a timely manner.
5. Build a strong closed-loop self-help tool, which can respond in seconds throughout the day, providing better efficiency than manual service. At present, the one-time solution rate of Tencent customer service self-service tools has reached 85%.
6. Tencent customer service also performs social responsibilities and promotes the aim of “Tech for Good” by establishing Tencent110 (110.qq.com), a platform for reporting illegal issues and accepting reports from Internet users and timely handling of illegal accounts on Tencent Platform. It helps with the crackdown of illegal industry chain on the Internet and provides analyses of fraud prevention methods so as to protect more users from fraud.

With the continuous expansion of the Group’s business, the scale of customer service undertaken by Tencent customer service has increased year by year. In 2020, Tencent customer service provided assistance to users of hundreds of products, with approximately 420 million users and approximately 1.39 billion times of service. In connection with users’ complaints received during our provision of services, Tencent customer service has set up a dedicated handling team and a comprehensive process to provide satisfactory solutions to better protect the rights of its users. In 2020, a total of 1,009,890 user complaints were received, with an escalation rate of 0.07%. 96% of the complaints were handled within three working days. In terms of business types, there were 591,307 complaints about games, accounting for 58.6%, 203,962 complaints about payment, accounting for 20.2%, and 214,621 complaints about social network and other businesses, accounting for 21.2%.

Cloud Services

Tencent Cloud is the cloud computing brand that the Group strives to build. According to the internationally recognised information security and IT management and control standards plan, and in compliance with various standards of the Mainland of China’s regulatory requirements, we provide global leading cloud computing, big data, AI and other technology products and services to government agencies, corporations and individual developers in various countries and regions of the world.

Tencent Cloud customer service relies on the new Internet technology and creates a cloud service model suitable for the development of Tencent Cloud business. It solves the user’s cloud technology service needs under various government agencies, enterprise organisations and individual developers. The cloud technology operation service department is supported by a professional team responsible for the customer’s pre-sales, after-sales, technical delivery consultation and complaint handling.



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We have established the following systems to handle customer inquiries and complaints effectively:

1. In terms of organisation, we have set up a special global technical operation service team, comprising of service engineer, technical specialist, complaint handling engineer, quality operation engineer and other roles. All teams work together to provide professional and efficient service support for customers, actively negotiate with customers to offer satisfactory solutions to customer complaints, and properly handle customer complaints.
2. In terms of process, we refer to ITIL (Information Technology Infrastructure Library) / ITSM (IT Service Management), PMBOK (Project Management Body of Knowledge) and other best practices; develop and continuously improve the complaint handling process, report handling process and other process guidelines, to ensure the timeliness and standardisation of problem handling.
3. In terms of IT informatisation, we build Andon service and operation platform to implement ITSM (IT Service Management) and ITOM (IT Operation Management), covering public cloud, private cloud and self-research business, providing customers with various service desks (service hotline, online customer service, instant messaging exclusive group, work order service, etc.), for the implementation of event management, problem management, change management, fault management and other processes. In the process, the service engineer, expert engineer and research and development engineer should build a problem-solving channel to serve customers.
4. We have built project management platform, operation management platform and BI (Business Intelligence) data platform to support project operation and management, refine customers' expectations for product value and service value and identify the steps of value stream, and use data analysis platform to quantify each node index to drive continuous improvement.
5. To solve customer problems more quickly and accurately, we have built intelligent platforms such as intelligent customer service, intelligent risk control and intelligent operation platform to help us quickly receive complaints and early warning and deal with customer problems.
6. Adhering to the principle of "Tech for Good", Tencent Cloud actively creates a clear Internet space, builds a Tencent Cloud reporting platform, accepts reports from users, timely disposes of illegal behaviours of Tencent Cloud platform tenants, and coordinates the disposal of IP disputes.
7. In terms of partner and supplier management, we have established a global partner ecological network to provide more comprehensive, timely, efficient, professional and warm services for customers based on serving Tencent Cloud customers and win-win cooperation.

With the expansion of Tencent Cloud business, the scale of services undertaken by Tencent Cloud services has increased year by year, with 3.72 million times of services in 2020. In connection with 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 2020, 418 complaints were received from users, with an escalation rate of 0.018%. 88% of the complaints were handled within 7 days.



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Advertising Content

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 continue to adhere to the advertising review guidelines and require clients who intend to use Tencent Marketing Solution to publish advertisements to ensure the legality of contents for their advertisements, and to provide documents to prove that they possess the legal qualifications to publish relevant advertisements, and that the advertising contents are true and valid, and we review the customers' advertisement contents strictly in accordance with the above laws and regulations. If customers violate laws and regulations or relevant rules of Tencent Marketing Solution, then we will take measures such as refusing to release illegal advertising materials, removing illegal advertisements from shelves, requiring the said customers to bear liability for breach of contract, etc. Throughout the year of 2020, the Group has strictly complied with the aforementioned laws and regulations.

IP

China has launched a series of laws and regulations regarding protection of IP rights. For example, the *Trademark Law of the People's Republic of China* last amended on 23 April 2019, the *Patent Law of the People's Republic of China* last amended on 17 October 2020, the *Copyright Law of the People's Republic of China* last amended on 11 November 2020 and the *Administrative Measures for Internet Domain Names* implemented on 24 August 2017 specify rules on the ownership, protection period, registration method and legal responsibility etc. of trademark, patent, copyright and domain names. We are a technology-oriented company and we stress the importance of the observation and protection of IP rights.

We have established our dedicated IP team that is mainly responsible for 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 at an early stage. We have consistently applied for the registration of IP rights since the early stages of its establishment. With the successful development of our business, we have expanded our global IP portfolio to cover more than 100 countries and regions. As of 31 December 2020, we have obtained over 30,000 officially registered trademarks and over 17,000 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 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>).

We actively participate in public affairs and the consultations on legislations, as well as strive to promote the awareness of IP protection in the Internet industry. As members of the China National Information Technology Standardisation Committee, the China Intellectual Property Society, the Patent Protection Association of China, the World Wide Web Consortium, the International Trademark Association and the China Trademark Association, we have participated in the consultations on legislative amendments to the PRC laws and regulations relating to patents and trademarks and have made recommendations in the development of industry standards. We have actively participated in the development of the standard patent issues in recent years. In particular, we standardised the video coding technology by using our accumulated experience in audio and video technology.



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Within the past decade, we have been awarded the “WIPO-SIPO Award for Chinese Outstanding Patented Invention” jointly by World Intellectual Property Organisation and the State Intellectual Property Office of the PRC, the “Trademark Innovation Award” jointly by World Intellectual Property Organisation and the State Administration for Industry and Commerce and the “China Copyright Gold Awards” by the National Copyright Administration of the PRC and the World Intellectual Property Organisation multiple times, signifying our contribution to the development of independent innovation of the PRC. We have also been recognised as a “National Copyright Demonstration Unit” several times, demonstrating our outstanding performance in management and protection of copyright.

Anti-Corruption

According to the *Law Against Unfair Competition in the People’s Republic of China*, 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 applicable laws and regulations for anti-corruption and embrace the value of integrity, being proactive, cooperation and creativity. To promote the idea of integrity, we have developed various systems and measures to detect and deter corruption, bribery or any other fraudulent activities. High-risk business and management are regularly under audit to assess the effectiveness of the internal control system and raise red flags as soon as possible to ensure the Group complies with ethical standards which we strive to uphold. In 2020, the anti-fraud investigation department has found more than 50 cases of violations of various Tencent rules and policies, more than 90 people have been dismissed, amongst which more than 40 people suspected of crimes have been transferred to the police.

Risk Management and Internal Control Policy

In 2016, we updated the Risk Management and Internal Control Policy (the “Policy”) with a system comprising three risk management lines of defence. The first line is 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 to the superior. The risk management and internal control department acts as the second line of defence, establishes a list of major risks at the business level through the collection, summary, analysis and other steps, and ensures that appropriate risk response strategies and monitoring measures have been taken for review by the management, and submits them to the Audit Committee for review before reporting to the Board. The risk management and internal control department analyses and evaluates the response to major risks from time to time, and reports the results to the Audit Committee once every quarter. The Board entrusts the Audit Committee to assess and determine the nature and extent of the risks the Company is willing to accept to achieve the corporate objectives, determine the major risk response strategies and responsible departments, and promote the implementation of the management through the risk management and internal control department from top to bottom. The IA and the anti-fraud investigation department act as the third line of defence. The IA is responsible for providing independent evaluation and assurance for the effectiveness of the Company’s risk management and internal control system. It also supervises the management team and helps them improve their risk management and internal monitoring skills. The IA is highly independent. The anti-fraud investigation department is responsible for receiving reports through multiple channels and timely following up and investigating suspected fraud cases. At the same time, it also assists the management in advocating integrity values and Sunshine Code to all of the Company’s employees to ensure a 100% acknowledgment of the Sunshine Code. Both the IA and the anti-fraud investigation department report directly to the Audit Committee. Through the three lines of defence mechanism, we regularly provide targeted risk control training for employees at all levels and businesses of the Company, to enhance the overall staff’s awareness of risk management.



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The Policy sets out the roles and responsibilities of different stakeholders in risk management and control (including those in relation to frauds). It is emphasised in the Policy that the management of each business group is primarily responsible for the risk management and internal control of its department. If any fraudulent activity is detected, the management of the relevant department shall improve the control procedures promptly to prevent recurrence of similar incidents. The risk management and internal control departments have dedicated a team to each business group to provide internal control and risk management support. We also apply continuous auditing to key businesses in order to detect irregularities and identify risks in a timely and systematic manner and to improve the effectiveness of fraud risk management and control.

Sunshine Code and Anti-Corruption Trainings

All employees of the entire Group are required to follow and to strictly comply with the Sunshine Code. It expressly prohibits all kinds of fraudulent activities, bribery, embezzlement, misappropriation of company's assets, extortion, falsification of information and any other activities which are not in compliance with applicable laws and regulations. The Sunshine Code shall be reviewed annually against the changing needs of the Group and revised when appropriate, in order to ensure that it caters for our business development, reflects the positions under applicable laws and regulations and captures all kinds of fraudulent activities effectively. To ensure that our employees comply with the requirements and ethics stipulated in the Sunshine Code, we have made a learning video as a compulsory course for new employees according to the Sunshine Code's specific provisions and the real cases in the past. If there are significant changes in the Sunshine Code's content, we will also ask all employees of the Group to retake the course in time. We ensure that all employees understand Sunshine Code's provisions and that 100% of our employees receive anti-corruption training. At the same time, we also require 100% of our suppliers to abide by the Company's business ethics and anti-corruption etc. requirements in the Sunshine Code and jointly safeguard the cooperation foundation of legal, fair and equitable trade. Employees at high-risk positions participate in face-to-face Sunshine Code training courses. They learn real cases to acquire a deeper understanding of the requirements of national laws and regulations and the Sunshine Code to avoid the risk of corruption. In 2020, six directors participated in the Audit Committee meeting, internal audit committee meeting and other internal meetings to learn Tencent's risk management and internal control policies, anti-fraud policies and measures, anti-corruption related laws and regulations and Sunshine Code, as well as the internal corruption cases. In addition, we will regularly push pictures and short videos to ensure that our staff can keep up with the requirements of anti-fraud laws and regulations.

Anti-fraud and Whistleblowing Policy

We have published an Anti-fraud and Whistleblowing Policy (the "Whistleblowing Policy"), which clearly conveys the message of our zero tolerance in relation to fraudulent activity to all the employees and suppliers/business partners. All employees and suppliers/business partners are encouraged by the Group to report genuine concerns about any existing or potentially fraudulent activities and non-compliance. The Whistleblowing Policy expressly outlines the multiple whistleblowing channels, how the Group should deal with such concerns and the whistle-blower protection system, so that employees and suppliers/business partners can report their good faith concerns without fear of reprisal or potential retaliation. Since 2016, we have maintained an official account under the name of "Sunshine Tencent" on Weixin to promote our anti-fraud policy and whistleblowing channels with a function to allow our business partners to report directly to us.



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Employees and suppliers/business partners can also report other violations through this open channel, including but not limited to employees' misconduct, deception, disclosure of trade secrets or other violations of business ethics. We encourage the informants to leave their contact information for the follow-up investigation and inform the informants of the investigation's progress and handling promptly. At the same time, we also guarantee that anonymous reports that provide adequate reporting information will also be dealt with seriously. We guarantee to protect the informant's identity or information from disclosure 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, which consists of professionals who used to be part of the anti-corruption function at a governmental authority or private enterprise and have profound knowledge in fraud risk management and solid fraud investigation experiences, is assigned to handle the investigation independently. After an investigation has been completed, the employee found and proven to have committed serious fraud shall be subject to immediate dismissal. At the same time, the department in question must, with the assistance of the risk management and internal control departments, take corrective actions in response to the business risk or loophole identified during the investigation. If we find any supplier or business partner engaging in serious corruption or any other fraudulent activities, we will terminate the contracts with them 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 relevant government authorities in accordance with applicable laws and regulations. In 2020, we received the results of the five corruption cases that we transferred to the authorities. Five former employees involved (timely dismissed according to the Sunshine Code) were found to be in violation of Article 163 of the *Criminal Law of the People's Republic of China* on "bribery of non-state workers" and Article 271 on "duty embezzlement", with the criminal punishment ranging from four months' detention to thirteen years' imprisonment. Because these cases were discovered and handled in time, they did not significantly impact the Company's business. After the occurrence of these cases, the direct and indirect managers of the employees involved bore the consequences, including demotion, cancellation of merit rating, and reprimand according to the Sunshine Code. Meanwhile, the relevant departments have also taken effective internal control measures to prevent similar cases from happening again.

In 2020, we issued the Management Policy for Sensitive Positions (the "Management Policy") to better implement the corporate governance standards and supervision requirements of risk management and internal control, and strengthen the construction of the Company's integrity system. The Management Policy provides that positions which participate in supplies/services/resources procurement, marketing, channel sales and resource management involving external cooperation, evaluation and selection of potential partners, pricing, resource allocation, key decision making and other high-risk duties should be regarded as sensitive positions. Corresponding management measures are taken for these positions, including requiring regular job rotation, stripping sensitive responsibilities, participating in various risk management training for sensitive positions etc. The Management Policy also clearly stipulates that the IA reserves the right to audit all personnel in sensitive positions and may conduct audit on current or former personnel in sensitive positions from time to time.



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In order to convey a message regarding our determination to fight against fraud and to introduce our Whistleblowing Policy externally, we send a letter to our suppliers and business partners and request them to complete a questionnaire annually since 2015. The questionnaire sets out our corporate values, the Whistleblowing Policy and the various reporting channels. We will understand from each of our suppliers and our business partners whether our employees have requested any gift, cash or benefit during the course of business and whether they have been treated unfairly. Upon receipt of the feedback, we will ensure that the questions or concerns raised by our suppliers and our business partners will be addressed promptly. If necessary, the anti-fraud investigation department will commence an investigation formally.

Our risk management and internal control departments have established a procurement management control unit to optimise the Group's supplier management system. Through the centralised system, the bidding process can be standardised and more transparent. The supplier management system also provides communication channels for suppliers to collect their feedback or complaints. Fraud complaints will be directly referred to the anti-fraud investigation department for follow-up. The Group aims to ensure that suppliers' complaints and concerns can be resolved in a timely manner and to minimise the risk of fraud.

Anti-money Laundering

The Group strictly abides by applicable laws and regulations in relation to cross-border and domestic money transmission, anti-money laundering ("AML"), counter-terrorist financing ("CTF"), as well as anti-tax evasion in the PRC and other countries where we provide payment processing services. Specifically, according to the *Anti-Money Laundering Law of the People's Republic of China* implemented on 1 January 2007 and the *Administrative Measures for Non-financial Institutions Providing Payment Services* implemented on 1 September 2010 and revised on 29 April 2020, we must formulate AML measures, fulfil AML obligations, and comply with relevant AML regulations if we intend to provide users with third-party payment services. According to the *Administrative Measures for Anti-money Laundering and Anti-terrorism Financing of Payment Institutions* promulgated and implemented on 5 March 2012, payment institutions should establish and improve a unified internal control system for AML, and report it to the branch of the People's Bank of China where the headquarters are located and should set up a special institution or designate an internal institution to be responsible for AML and CTF.

As a result of the complexity of legal and regulatory compliance in multiple jurisdictions, we have established an independent AML and sanctions compliance department. The duty of the department is to coordinate the management of money laundering and sanctions risk at the group level for all businesses, to fulfil AML and sanctions requirements under relevant laws and regulations, and to manage and promote the implementation of various AML and sanctions initiatives.

In 2020, we strictly enforced the AML provisions of the regulatory authorities, further strengthened our compliance capacity, and orderly promoted all works under the framework of the Group's minimum standards for AML and sanctions compliance. Key aspects of the AML programme include but are not limited to the followings:

- To sort out and clarify the six major systems of AML management, including risk governance, risk assessment, control, system, identification and transaction monitoring;
- Strictly implement the Group's minimum standards for AML and sanctions compliance;



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- Regularly hold money laundering risk management committee meetings to continuously promote senior executives to perform their duties;
- To carry out institution money laundering risk assessment projects, optimise and improve assessment indicators and methodologies, and comprehensively evaluate institution's money laundering risk, in order to optimise the allocation of AML resources and enhance management standards.

In addition, the Group continues to improve the AML programme and dedicate increasing resources to the following key areas: (i) increase staffing and provide regular on-the-job and professional training for employees to improve the strength of AML professional team continuously; (ii) consolidate the system to achieve comprehensive coverage of regulatory requirements; (iii) regularly carry out special assessments to strengthen the implementation of AML and sanctions compliance system and rules, including customer and product money laundering risk assessment, transaction monitoring and suspicious transaction report compliance assessment and list system inspection; (iv) deepen cooperation with authorities and practise the idea of technology for the good; (v) active participation in international AML/CTF events to exchange industry best practices.

COMMUNITY

Community Investment

Tencent Charity Foundation was established in 2007 and receives donations from the Group every year. In 2020, Tencent Charity Foundation received a donation of RMB2.074 billion from the Group. As of 31 December 2020, Tencent Charity Foundation has received a total of RMB6.375 billion from the Group, with a total donation expenditure of RMB4.623 billion.

Since its establishment, Tencent Charity Foundation has been active in many public welfare fields with the mission of “exploring public welfare of technology, advocating digital responsibility, and promoting sustainable development of society”, including (i) Internet charity fund-raising information platform; (ii) public hygiene and health; (iii) basic scientific research; (iv) poverty alleviation and rural development; (v) education; (vi) ecological conservation and cultural protection, and (vii) others.

In December 2020, Tencent Charity Foundation launched the “Tencent Tech for Good Programme”, which aims to provide a platform for professional volunteers, technology enterprises and social innovation institutions to connect, collaborate and co-create, to jointly promote the use of technology capabilities, to solve social pain points and enhance social welfare.

Internet Charity Donation

Tencent Charity Platform is an Internet public donation information platform initiated and operated by Tencent Charity Foundation, which is open to qualified public charity organisations for free. The platform uses Internet technology and social media to connect public charity organisations, Internet users, media and enterprises to build a socialised, mobile and transparent charity donation ecology and boost public welfare. The charity industry's ability is improved, and the culture of public welfare and rational public welfare is advocated.



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Since 2015, Tencent Charity Foundation has continuously launched “99 Giving Day” every year to donate funds, brand communication, voluntary services and other charity resources for public welfare charity organisations with many Internet users, foundations and enterprises. In terms of accumulated fund-raising, the Tencent Charity Platform has so far become the largest Internet public fund-raising information platform in China.

As of 31 December 2020, Tencent Charity Platform has supported more than 95,000 public welfare projects in the Mainland of China, raising a total of RMB11.55 billion from the public and mobilising more than 100 million Internet users to participate in public welfare. In addition, Tencent Charity Foundation has made matching donations to charity organisations participating in “99 Giving Day” every year, with a total donation of about RMB1.8 billion. In 2020, “99 Giving Day” attracted more than 18 million users to participate in more than 10,000 charitable fund-raising projects, and more than RMB3 billion was raised during the three-day event.

Public Health

In the face of the continuous impact of the new pandemic on the global economy, we have established a RMB1.5 billion China Anti-Pandemic Fund and a USD100 million Global Anti-Pandemic Fund to support efforts against the pandemic. The anti-pandemic work includes donating medical protective materials to areas with the serious pandemic situation, providing technical support for clinical diagnosis, drug screening and vaccine research and development, donating health insurance funds for infected health care workers, community workers and non-governmental volunteers etc., providing donation support for research institutes to carry out public health and medical health-related research. In addition, during the pandemic period, Tencent promoted the launch of more than 100 anti-pandemic Mini Programs through its Internet technology capabilities and continued to provide digital services. In terms of medical assistance, Tencent launched tools such as pandemic surveillance, remote consultation and medical self-diagnosis, and provided cloud computing resources to scientific research institutions free of charge; in terms of information dissemination, Tencent News, Tencent Health, Tencent Medipedia, Tencent Map and other teams cooperated to develop products such as fever clinics map and rumour refuting platform; in terms of social services, Tencent quickly upgraded Tencent Meeting, WeCom, and other products and services to help promote the safe and orderly resumption of work and production.

Basic Scientific Research

At the end of 2018, Tencent Charity Foundation funded and supported a number of well-known scientists to jointly launch the Xplorer Prize, which aims to support young scientific and technological workers in basic science and cutting-edge technology fields. The Xplorer Prize annually supports 50 winners, each of whom can receive a cumulative cash grant of RMB3 million. In 2020, 50 young scientific and technological workers won the 2nd Xplorer Prize. Among them, there are 6 winners under 35 years old and 5 female winners.



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Poverty Reduction and Rural Development

Since its establishment, Tencent Charity Foundation has continued to carry out poverty alleviation and assistance to agriculture, covering six major areas: three-dimensional disaster relief, targeted poverty alleviation, education and culture poverty alleviation, health poverty alleviation, ecological poverty alleviation, and rural governance. Among them, Tencent Charity Foundation's "WeCounty" leverages on diversified platforms, such as mobile app, social media and Weixin Mini Program to help rural areas improve the digitalisation of the basic governance, and lay the foundation for the development of industries, the creation of wealth and the improvement of culture and living environment. As of 31 December 2020, 16,214 villages or communities in 30 provinces/autonomous regions/municipalities have joined the project, with approximately 2.52 million villagers certified.

Education

Over the years, Tencent Charity Foundation has set up various scholarships to promote education. In addition, there are also specific donations for different education programmes. In 2020, Tencent Charity Foundation donated approximately RMB88.11 million to education and advocacy related projects. For example, it set up "Wuhan College Software Engineering (Tencent class)" in Hubei Yidan University Education Development Foundation. The special fund is used to award outstanding students of software engineering major (Tencent class) of Wuhan College, and to fund a series of characteristic education and teaching activities for them. It also contributes to the "Outstanding Engineering Research Scholarship" set up in the China Foundation for International Scientific Exchange, which recognises a large number of engineering and technical personnel who are dedicated in China's economic restructuring and heavily contributed to promoting national technological innovation, industrial restructuring, and the technical level of the industry.

Ecological Conservation and Cultural Preservation

The Tencent Charity Foundation is keen on ecological conservation and cultural preservation. In 2020, Tencent Charity Foundation donated approximately RMB11.9 million to Shenzhen Taohuayuan Ecological Protection Foundation and Sichuan Taohuayuan Ecological Protection Foundation to carry out terrestrial ecology protection and nature education projects. In addition, we launched snow leopard protection activities, used technology to monitor snow leopard protection actions, and launched innovative publicity initiatives for animal protection. With regard to cultural preservation, Tencent Charity Foundation donated RMB15 million to the Palace Museum in 2020 for digital construction (cultural relic data acquisition and image processing as well as digital innovation laboratory construction), and donated approximately RMB5 million to establish a special fund for digital protection and promotion of cultural heritage under the Cultural Heritage Conservation Foundation to support digital protection projects related to Chinese traditional cultural heritage.



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Others

Through the “Tencent Tech for Good Programme”, Tencent Charity Foundation actively participates in and contributes to various social public welfare issues. For example, in terms of smart pension, Tencent helped the elderly in Shenzhen nursing home with technology enabled by AI technology, big data, cloud computing, and Internet of Things. In the field of digital accessibility, Tencent Charity Foundation, together with the Group, uses Tencent Tianlai AI audio noise reduction technology to upgrade cochlear implant and improve the hearing experience of hearing-impaired people.

Volunteering

Tencent Volunteers’ Association was founded in 2007. As of 31 December 2020, the Tencent Volunteers’ Association has contributed more than 170,000 hours of voluntary services and the total number of participants is more than 16,000. There were more than 25 sub-divisions established at the city level (such as Beijing, Shanghai, Chengdu, Shenzhen, Wuhan, Guangzhou and Hefei) and at the business group level (such as enterprise development business group, cloud and smart industry business group, interactive entertainment business group, platform and content business group, Weixin business group, technology engineering business group, finance function and human resource function and management line).

Over the last decade, the Tencent Volunteer’s Association has been involved and contributed in the areas of online charity, promotion of unhindered Internet access, information technology popularisation, cybersecurity, emergency support, poverty relief, scholarship, environmental protection, care for elderly and children with special needs and animal protection. It has launched more than 200 volunteering activities.

The Tencent Volunteers’ Association combines its expertise in technology to help the community. For example, it has been broadcasting information on missing persons via Weixin/WeChat and QQ and with the latest facial recognition and blockchain technologies, we have succeeded in locating the missing persons many times.

The Tencent Volunteers’ Association, as one of the co-founders, established the China IT-Philanthropy Union which promotes the “Internet + Charity” model by holding summits and publishing white papers on the successful examples of how the information technology has changed the landscape of charity work.

In order to encourage employees to participate in volunteer service, employees, since April 2012, have been granted one day of fully-paid volunteer service leave per year.



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Independent Practitioner’s Limited Assurance Report To the board of directors of Tencent Holdings Limited

We have undertaken a limited assurance engagement in respect of the selected Environmental, Social and Governance (“ESG”) information of Tencent Holdings Limited (the “Company”) listed below in the Company’s ESG report for the year ended 31 December 2020 (“the 2020 ESG report”) (the “Selected ESG Information”).

SELECTED ESG INFORMATION

The Selected ESG Information for the year ended 31 December 2020 is summarised below:

Environmental	Workplace
<p>1. Emissions</p> <p><i>1.1 Office buildings</i></p> <ul style="list-style-type: none"> • Total GHG emissions (Scopes 1 and 2) (tonnes) • Direct GHG emissions (Scope 1) (tonnes) <ul style="list-style-type: none"> – Gasoline (tonnes) – Diesel (tonnes) – Natural gas (tonnes) • Indirect GHG emissions (Scope 2) (tonnes) <ul style="list-style-type: none"> – Purchased electricity (tonnes) • Total GHG emissions per person (tonnes / person) • Total GHG emissions per square meter of floor area (tonnes / square meter) • Hazardous waste (tonnes) • Hazardous waste per person (tonnes / person) • Non-hazardous waste (tonnes) • Non-hazardous waste per person (tonnes / person) <p><i>1.2 Data centres</i></p> <ul style="list-style-type: none"> • Total GHG emissions (Scopes 1 and 2) (tonnes) • Direct GHG emissions (Scope 1) (tonnes) <ul style="list-style-type: none"> – Diesel (tonnes) • Indirect GHG emissions (Scope 2) (tonnes) <ul style="list-style-type: none"> – Purchased electricity (tonnes) • Hazardous waste (tonnes) • Non-hazardous waste (tonnes) 	<p>Workforce</p> <p><i>Workforce</i></p> <ul style="list-style-type: none"> • Total number of employees • Number of employees by gender <ul style="list-style-type: none"> – Male – Female • Number of employees by age group <ul style="list-style-type: none"> – Under age 30 – Age 30 to 50 – Above age 50 • Number of employees by geographical region <ul style="list-style-type: none"> – The Mainland of China – Hong Kong, Macao and Taiwan – Other countries and regions • Number of employees by management level <ul style="list-style-type: none"> – Management – Non-management • Total turnover rate • Employee turnover rate by gender <ul style="list-style-type: none"> – Male – Female • Employee turnover rate by age group <ul style="list-style-type: none"> – Under age 30 – Age 30 to 50 – Above age 50



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<p>2. Use of Resources</p> <p><i>2.1 Office buildings</i></p> <ul style="list-style-type: none"> • Total energy consumption (MWh) • Direct energy consumption (MWh) <ul style="list-style-type: none"> – Gasoline (MWh) – Diesel (MWh) – Natural gas (MWh) • Indirect energy consumption (MWh) <ul style="list-style-type: none"> – Purchased electricity (MWh) • Total energy consumption per person (MWh / person) • Total energy consumption per square meter of floor area (MWh / square meter) • Running water consumption (tonnes) • Running water consumption per person (tonnes / person) • Reclaimed water consumption (tonnes) <p><i>2.2 Data centres</i></p> <ul style="list-style-type: none"> • Total energy consumption (MWh) • Direct energy consumption (MWh) <ul style="list-style-type: none"> – Diesel (MWh) • Indirect energy consumption (MWh) <ul style="list-style-type: none"> – Purchased electricity (MWh) • Average PUE • Running water consumption (tonnes) 	<ul style="list-style-type: none"> • Employee turnover rate by geographical region <ul style="list-style-type: none"> – The Mainland of China – Hong Kong, Macao and Taiwan – Other countries and regions <p>Health and Safety</p> <ul style="list-style-type: none"> • Total number of work-related fatalities • Work-related fatality rate • Working days lost due to work-related injury <p>Training</p> <ul style="list-style-type: none"> • Percentage of employees trained by gender <ul style="list-style-type: none"> – Male – Female • Percentage of employees trained by management level <ul style="list-style-type: none"> – Management – Non-management • Average training hours of employees by gender <ul style="list-style-type: none"> – Male – Female • Average training hours of employees by management level <ul style="list-style-type: none"> – Management – Non-management
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Environmental, Social and Governance Report

<p>Operating practices</p> <p>Supply Chain Management</p> <ul style="list-style-type: none"> • Number of suppliers by geographical region <ul style="list-style-type: none"> – The Mainland of China – Hong Kong, Macao and Taiwan – Other countries and regions <p>Product Responsibility</p> <ul style="list-style-type: none"> • Number of Internet service user complaints received, covering the following categories: <ul style="list-style-type: none"> – Games – Payment – Social network and others • Number of Tencent Cloud service user complaints received <p>Anti-corruption</p> <ul style="list-style-type: none"> • Number of concluded legal cases regarding corrupt practices 	<p>Community</p> <ul style="list-style-type: none"> • Donations to Tencent Charity Foundation by Tencent Group (RMB billion) • Donations from Tencent Charity Foundation to <ul style="list-style-type: none"> – Education and advocacy related projects (RMB million) – Shenzhen Taohuayuan Ecological Protection Foundation and Sichuan Taohuayuan Ecological Protection Foundation (RMB million) – The Palace Museum (RMB million) – The China Heritage Conservation Foundation (RMB million)
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Our assurance was with respect to the year ended 31 December 2020 information only and we have not performed any procedures with respect to earlier periods or any other elements included in the 2020 ESG report and, therefore, do not express any conclusion thereon.

CRITERIA

The criteria used by the Company to prepare the Selected ESG Information is set out in the sections headed “Application of Reporting Principles” and “Reporting Boundary of this Report” in the 2020 ESG report (the “Criteria”).

THE COMPANY’S RESPONSIBILITY FOR THE SELECTED ESG INFORMATION

The Company is responsible for the preparation of the Selected ESG Information in accordance with the Criteria. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of Selected ESG Information that is free from material misstatement, whether due to fraud or error.

INHERENT LIMITATIONS

The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measures and measurement techniques and can affect comparability between entities.



Environmental, Social and Governance Report

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the Selected ESG Information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Selected ESG Information is free from material misstatement.

A limited assurance engagement involves assessing the suitability in the circumstances of the Company's use of the Criteria as the basis for the preparation of the Selected ESG Information, assessing the risks of material misstatement of the Selected ESG Information whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Selected ESG Information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- obtained an understanding of the ESG governance structure, ESG strategy and stakeholder engagement process;
- made inquiries of the personnel involved in the preparation of the ESG report regarding the preparation process and the internal control system relating to this process;



Environmental, Social and Governance Report

- understood the process for collecting and reporting the Selected ESG Information. This included visiting the Company's corporate head office in Shenzhen, 2 office buildings and 2 data centres (which were selected on the basis of their inherent risk and materiality to the Company, "Selected Sites"), understanding the key data collection processes and controls at the Selected Sites and analysing the relevant data collected;
- performed limited substantive testing on a selective basis and analytical procedures of the Selected ESG Information at the Selected Sites to substantiate the data is appropriately measured, recorded, collated and reported; and
- considered the disclosure and presentation of the ESG report prepared in accordance with underlying records and the ESG Reporting Guide, Appendix 27 to the Main Board Listing Rules by The Stock Exchange of Hong Kong Limited.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Company's Selected ESG Information has been prepared, in all material respects, in accordance with the Criteria.

LIMITED ASSURANCE CONCLUSION

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Company's Selected ESG Information for the year ended 31 December 2020 is not prepared, in all material respects, in accordance with the Criteria.

Our report has been prepared for and only for the board of directors of the Company and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 March 2021



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") set out on pages 164 to 304, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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 a summary of significant accounting policies.

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 2020, 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.



Independent Auditor's Report

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 Note 2.29(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 2020, majority of the Group's revenue from value-added services was contributed from 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, including 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 supporting documentation.



Independent Auditor's Report

Key Audit Matter

Impairment assessments of goodwill, investments in associates and joint ventures

Refer to Notes 2.13(a), 2.15, 4(b), 20, 21 and 22 to the consolidated financial statements

As at 31 December 2020, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB108,623 million, RMB297,609 million and RMB7,649 million, respectively. Impairment of RMB4,205 million, RMB5,254 million and RMB1,388 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 2020.

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.

How our audit addressed the Key Audit Matter

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, which 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 them to be appropriate.

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 are in line with our expectation and evidence obtained.



Independent Auditor's Report

Key Audit Matter

Impairment assessments of goodwill, investments in associates and joint ventures (continued)

How our audit addressed the Key Audit Matter

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 are 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.



Independent Auditor's Report

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, 38 to the consolidated financial statements

As at 31 December 2020, 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 RMB172,537 million, RMB213,091 million and RMB5,309 million, respectively, of which approximately RMB152,897 million of these financial assets and approximately RMB3,352 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, which 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 2020 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 is acceptable and the assumptions made by management are 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.



Independent Auditor's Report

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.



Independent Auditor's Report

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, 24 March 2021



Consolidated Income Statement

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020 RMB'Million	2019 RMB'Million
Revenues			
Value-added Services		264,212	199,991
Online Advertising		82,271	68,377
FinTech and Business Services		128,086	101,355
Others		7,495	7,566
		<u>482,064</u>	<u>377,289</u>
Cost of revenues	5 8	<u>(260,532)</u>	<u>(209,756)</u>
Gross profit		221,532	167,533
Interest income	6	6,957	6,314
Other gains, net	7	57,131	19,689
Selling and marketing expenses	8	(33,758)	(21,396)
General and administrative expenses	8	(67,625)	(53,446)
Operating profit		184,237	118,694
Finance costs, net	9	(7,887)	(7,613)
Share of profit/(loss) of associates and joint ventures, net	10	3,672	(1,681)
Profit before income tax		180,022	109,400
Income tax expense	11	(19,897)	(13,512)
Profit for the year		160,125	95,888
Attributable to:			
Equity holders of the Company		159,847	93,310
Non-controlling interests		278	2,578
		<u>160,125</u>	<u>95,888</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	12(a)	<u>16.844</u>	<u>9.856</u>
– diluted	12(b)	<u>16.523</u>	<u>9.643</u>

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.



Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Year ended 31 December	
	2020 RMB'Million	2019 RMB'Million
Profit for the year	160,125	95,888
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income of associates and joint ventures	334	125
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates	(3)	(3)
Currency translation differences	(7,262)	3,089
Other fair value losses	(1,552)	(2,139)
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Net gains from changes in fair value of financial assets at fair value through other comprehensive income	130,525	23,119
Currency translation differences	(1,285)	–
Other fair value gains/(losses)	291	(178)
	121,048	24,013
Total comprehensive income for the year	281,173	119,901
Attributable to:		
Equity holders of the Company	277,834	116,670
Non-controlling interests	3,339	3,231
	281,173	119,901

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.



Consolidated Statement of Financial Position

As at 31 December 2020

		As at 31 December	
	Note	2020 RMB'Million	2019 RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	59,843	46,824
Land use rights	17	16,091	15,609
Right-of-use assets	18	12,929	10,847
Construction in progress	19	4,939	3,935
Investment properties		583	855
Intangible assets	20	159,437	128,860
Investments in associates	21	297,609	213,614
Investments in joint ventures	22	7,649	8,280
Financial assets at fair value through profit or loss	24	165,944	128,822
Financial assets at fair value through other comprehensive income	25	213,091	81,721
Prepayments, deposits and other assets	26	24,630	23,442
Other financial assets	27	4	–
Deferred income tax assets	28	21,348	18,209
Term deposits	29	31,681	19,000
		1,015,778	700,018
Current assets			
Inventories		814	718
Accounts receivable	30	44,981	35,839
Prepayments, deposits and other assets	26	40,321	27,840
Other financial assets	27	1,133	375
Financial assets at fair value through profit or loss	24	6,593	7,114
Term deposits	29	68,487	46,911
Restricted cash	31	2,520	2,180
Cash and cash equivalents	31	152,798	132,991
		317,647	253,968
Total assets		1,333,425	953,986



Consolidated Statement of Financial Position

As at 31 December 2020

		As at 31 December	
	Note	2020 RMB'Million	2019 RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	32	–	–
Share premium	32	48,793	35,271
Shares held for share award schemes	32	(4,412)	(4,002)
Other reserves	33	121,139	16,786
Retained earnings		538,464	384,651
		703,984	432,706
Non-controlling interests		74,059	56,118
Total equity		778,043	488,824
LIABILITIES			
Non-current liabilities			
Borrowings	35	112,145	104,257
Notes payable	36	122,057	83,327
Long-term payables	37	9,910	3,577
Other financial liabilities	38	9,254	5,242
Deferred income tax liabilities	28	16,061	12,841
Lease liabilities	18	10,198	8,428
Deferred revenue	5(c)(i)	6,678	7,334
		286,303	225,006



Consolidated Statement of Financial Position

As at 31 December 2020

	Note	As at 31 December	
		2020 RMB'Million	2019 RMB'Million
Current liabilities			
Accounts payable	39	94,030	80,690
Other payables and accruals	40	54,308	45,174
Borrowings	35	14,242	22,695
Notes payable	36	–	10,534
Current income tax liabilities		12,134	9,733
Other tax liabilities		2,149	1,245
Other financial liabilities	38	5,567	5,857
Lease liabilities	18	3,822	3,279
Deferred revenue	5(c)(i)	82,827	60,949
		269,079	240,156
Total liabilities		555,382	465,162
Total equity and liabilities		1,333,425	953,986

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 164 to 304 were approved by the Board of Directors on 24 March 2021 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 2020

	Attributable to equity holders of the Company							Total equity RMB'Million
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	
Balance at 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 of associates	-	-	-	(154)	-	(154)	-	(154)



Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company							Total equity RMB'Million
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	
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 (Note 41)	-	-	-	-	-	-	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 interests in subsidiaries	-	-	-	(684)	-	(684)	1,407	723
Changes in put option liability in respect of non-controlling interests	-	-	-	(765)	-	(765)	(293)	(1,058)
Recognition of financial liabilities in respect of the put option from business combination	-	-	-	(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



Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

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



Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

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

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.



Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020 RMB'Million	2019 RMB'Million
Cash flows from operating activities			
Cash generated from operations	42(a)	214,441	165,818
Income tax paid		(20,322)	(17,228)
Net cash flows generated from operating activities		194,119	148,590
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		(15,097)	(428)
Net inflow of cash in respect of disposal of a subsidiary		15	–
Purchase of property, plant and equipment, construction in progress and investment properties		(34,070)	(22,766)
Proceeds from disposals of property, plant and equipment		–	4
Purchase of/prepayment for intangible assets		(27,182)	(29,866)
Purchase of/prepayment for land use rights		(5,347)	(4,356)
Payments for acquisition of investments in associates		(30,533)	(14,904)
Proceeds from disposals of investments in associates		2,208	667
Payments for acquisition of investments in joint ventures		(247)	(720)
Payments for acquisition of financial assets at fair value through other comprehensive income		(12,719)	(9,425)
Proceeds from disposals of financial assets at fair value through other comprehensive income		7,648	–
Payments for acquisition of financial assets at fair value through profit or loss		(60,066)	(39,827)
Proceeds from disposals of financial assets at fair value through profit or loss		13,168	15,744
Payments for acquisition/settlements of other financial instruments		(859)	(11,391)
Proceeds from disposals of other financial assets		1,626	1,222
Payments for loans to investees and others		(1,755)	(5,648)
Loans repayments from investees and others		484	618
Receipt from maturity of term deposits with initial terms of over three months		32,177	82,607
Placement of term deposits with initial terms of over three months		(59,169)	(85,601)
Interest received		5,610	6,230
Dividends received		2,153	1,670
Net cash flows used in investing activities		(181,955)	(116,170)



Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Year ended 31 December	
	2020 RMB'Million	2019 RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	5,090	18,375
Repayments of short-term borrowings	(8,512)	(22,058)
Proceeds from long-term borrowings	26,323	55,075
Repayments of long-term borrowings	(15,899)	(55,168)
Net proceeds from issuance of notes payable	47,948	40,202
Repayments of notes payable	(10,460)	(13,465)
Principal elements of lease payments	(3,537)	(2,400)
Interest paid	(7,076)	(7,047)
Payments for repurchase of shares	–	(1,046)
Proceeds from issuance of ordinary shares as a result of exercise of share options	1,716	272
Shares withheld for share award schemes	(1,865)	(1,406)
Proceeds from issuance of additional equity of non wholly-owned subsidiaries	600	440
Payments for acquisition of non-controlling interests in non wholly-owned subsidiaries	(9,263)	(649)
Dividends paid to the Company's shareholders	(10,339)	(8,315)
Dividends paid to non-controlling interests	(1,079)	(1,138)
Net cash flows generated from financing activities	13,647	1,672
Net increase in cash and cash equivalents	25,811	34,092
Cash and cash equivalents at beginning of the year	132,991	97,814
Exchange (losses)/gains on cash and cash equivalents	(6,004)	1,085
Cash and cash equivalents at end of the year	152,798	132,991

The notes on pages 175 to 304 are an integral part of these consolidated financial statements.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1 GENERAL INFORMATION (continued)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.3(a) and Note 47) 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 47.

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"), 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(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 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Conceptual Framework	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 16	COVID-19-related Rent Concessions

The adoption of these amended standards does not have significant impact on the consolidated financial statements of the Group.

(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 1 January 2020 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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies

Change in the subsequent measurement of put option arrangements with non-controlling shareholders

From 1 January 2020, the Group made voluntary change in accounting policy on the subsequent measurement of put option arrangements with non-controlling shareholders from the change in carrying value “through profit or loss” to “through equity”. The Group considers the change in the accounting policy will provide more relevant information about the effects of underlying transactions which is related to transaction with non-controlling shareholders that do not result in any change in the status of an existing subsidiary. The Group has adopted this new policy retrospectively, however as the impact is insignificant to the consolidated financial statements of the Group, comparative figures have not been restated. The adoption of this new policy also does not result in any significant financial impact for the year ended 31 December 2020.

2.3 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 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 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.

(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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

(a) Consolidation (continued)

(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 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 47(e)), 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.

2.4 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.4 Associates (continued)

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 2.5), 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.

2.5 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. The Group has assessed the nature of its joint arrangements and determined them to be 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.5 Joint arrangements (continued)

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.

2.6 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 it becomes associate/joint venture. A gain or loss on re-measurement of the previously held interests is taken to the consolidated income statement.

2.7 Disposal of associates

When the Group loses significant influence over an associate, 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 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 by an associate 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 loses significant influence over the associate.

2.8 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 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.

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 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 Foreign currency translation (continued)

(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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 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 item will flow to the Group and the cost of the item 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 2.15).

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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.11 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.

2.12 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.

2.13 Intangible assets

(a) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred plus acquisition-date fair value of the equity interests previously held by the Group and the non-controlling interests in the acquired entity over the fair value of the net identifiable assets of the acquiree.

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 unit or group of units 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 value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately under "Other gains/(losses), net" and is not subsequently reversed.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 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 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 asset's future economic benefits are expected to be consumed.

2.14 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 47(e)) 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".



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.15 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 to sell 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.

2.16 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 entity's business model for managing the financial assets and the contractual terms of the cash flows.

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.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

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 rate 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 rate 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 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 an 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 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 are recognised within other comprehensive income in the costs of hedging reserve within equity.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 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.

2.18 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.

2.19 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.20 Accounts receivable

Accounts receivable are amounts due from customers or agents for services performed or merchandise sold in the ordinary course of business. If collection of accounts receivable is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.21 Cash and cash equivalents and restricted cash

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.

2.22 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.23 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 classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24 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.

2.25 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.25 Borrowings, notes payable and borrowing costs (continued)

Borrowings 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.

Notes payable are classified as non-current liabilities unless the Group has an unconditional obligation to settle the liability within 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 2020, finance cost capitalised was insignificant to the Group.

2.26 Current and deferred income tax

The income tax expense for the year comprises current and deferred 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. 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.

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 tax asset is realised or the deferred tax liability is settled.

Deferred 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Current and deferred income tax (continued)

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except for deferred 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. 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 tax liability in relation to taxable temporary differences arising from the associate's 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 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.

2.27 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Employee benefits (continued)

(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) 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 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Employee benefits (continued)

(c) Share-based compensation benefits (continued)

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.

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.

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. The Group adopts valuation technique to assess the fair value of such equity instruments granted under the share-based compensation plans as appropriate.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 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.

2.29 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. Giving 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 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 services 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 basis, given it acts as the principal in these transactions based on the assessment according to the criteria stated in (e) below, and recognises such Channel and distribution costs as cost of revenues.

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.

(b) Online Advertising

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

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 Revenue recognition (continued)

(b) Online Advertising (continued)

Revenue from display-based advertising is recognised on number of display/impression basis or their advertising agencies depending on the contractual measures. Revenue from performance-based advertising is recognised when relevant specific performance measures are fulfilled. Where the contracts include multiple performance obligations, 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 is generally determined as a percentage based on the value of transaction amount or retention amount. Revenue related to such commissions is recognised upon a time when 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 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 are 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.30 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.

2.31 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. However, the investment may need to be tested for impairment as a consequence.

2.32 Government grants/subsidies

Grants/Subsidies from government are recognised at their fair value 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.

2.33 Leases

The Group leases land (Note 2.12), 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. Each lease payment is allocated between the liability 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. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis. A right-of-use asset arising from land lease is presented as “land use rights”.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.33 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 interest 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.

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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.33 Leases (continued)

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.

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 tax is recognised.

2.34 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.35 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

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.

(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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

- (a) Market risk (continued)
 - (i) Foreign exchange risk (continued)

As at 31 December 2020, 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 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)
	<u>(5,041)</u>	<u>477</u>
As at 31 December 2019		
Monetary assets, current	27,728	2,899
Monetary assets, non-current	373	–
Monetary liabilities, current	(4,273)	(14,732)
Monetary liabilities, non-current	(91)	(5,739)
	<u>23,737</u>	<u>(17,572)</u>

During the year ended 31 December 2020, the Group reported exchange losses of approximately RMB438 million (2019: exchange gains of approximately RMB77 million) within "Finance costs, net" in the consolidated income statement.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2020, 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 currency 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 2019: 5%) higher/lower as at 31 December 2020, profit for the year would have been approximately RMB8,326 million (2019: RMB6,611 million) higher/lower as a result of gains/losses on financial instruments classified as at FVPL, other comprehensive income would have been approximately RMB10,529 million (2019: RMB4,018 million) higher/lower as a result of gains/losses on financial instruments classified as at FVOCI.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 from 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 2020 would have been RMB501 million (2019: RMB330 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 2020 would have been RMB764 million (2019: RMB665 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 35 and 36, 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 2020 have been mainly disclosed in Note 38.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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:

	2020 RMB'Million	2019 RMB'Million
Interest rate swaps		
Carrying amount (current assets)	1	–
Carrying amount (non-current assets)	4	–
Carrying amount (non-current liabilities)	(1,937)	(494)
Notional amount	100,889	29,423
Maturity date	2021/6/15~ 2024/12/23	2021/7/30~ 2024/4/11
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 January	(1,552)	(2,139)
Change in value of hedged item used to determine hedge effectiveness	(1,552)	(2,139)
Weighted average hedged rate for the year	0.88%	2.10%

Swaps currently in place cover majority of the floating-rate borrowing and notes payable principal outstanding.

As at 31 December 2020 and 2019, 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. Accordingly, no sensitivity analysis is presented for interest rate risk.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 ("ECL") 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 ECL, as follows:

- Stage 1: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage 1.
- Stage 2: If the credit risk has increased significantly since its initial recognition but not yet deemed to be credit-impaired, the financial instrument is included in stage 2.
- Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in stage 3.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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. Especially the following indicators are incorporated:

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(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.

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

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 financial assets at fair value through profit or loss. 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.

	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
	<u>150,517</u>	<u>18,819</u>	<u>169,281</u>	<u>122,685</u>	<u>461,302</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 2019					
Non-derivatives:					
Notes payable	13,727	3,047	32,866	73,466	123,106
Long-term payables	–	2,322	1,079	227	3,628
Borrowings	26,164	21,343	91,447	–	138,954
Lease liabilities	3,526	2,840	4,866	1,739	12,971
Other financial liabilities	5,745	1,680	2,363	–	9,788
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	104,218	–	–	–	104,218
Derivatives:					
Other financial liabilities	29	–	494	–	523
	<u>153,409</u>	<u>31,232</u>	<u>133,115</u>	<u>75,432</u>	<u>393,188</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 business and financial risk profile and monitors capital by regularly reviewing 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 debts that reflects 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	
	2020	2019
	RMB'Million	RMB'Million
Borrowings (Note 35)	126,387	126,952
Notes payable (Note 36)	122,057	93,861
Total debts	<u>248,444</u>	<u>220,813</u>
Adjusted EBITDA (Note)	<u>183,314</u>	<u>147,395</u>
Total debts/Adjusted EBITDA ratio	<u>1.36</u>	<u>1.50</u>

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 equity-settled share-based compensation expenses.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 2020 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 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
As at 31 December 2019				
FVPL	14,766	5,091	116,079	135,936
FVOCI	74,707	–	7,014	81,721
Other financial assets	–	375	–	375
Other financial liabilities	–	523	1,873	2,396



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

During the year ended 31 December 2020, there was no transfer between level 1 and 2 for recurring fair value measurements. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 for the years ended 31 December 2020 and 2019:

	Financial assets		Financial liabilities	
	2020 RMB'Million	2019 RMB'Million	2020 RMB'Million	2019 RMB'Million
Opening balance	123,093	83,934	1,873	4,466
Additions	56,393	39,116	2,142	75
Business combinations	10	–	–	(977)
Disposals/Settlements	(4,902)	(6,714)	(1,246)	(1,193)
Transfers	(41,653)	(4,552)	–	–
Changes in fair value recognised in other comprehensive income	2,133	328	–	–
Changes in fair value recognised in profit or loss*	25,748	9,241	635	(463)
Currency translation differences	(7,916)	1,740	(52)	(35)
Closing balance	152,906	123,093	3,352	1,873
* Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	11,032	3,265	636	(463)



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note:

During the years ended 31 December 2020 and 2019, the amount transferred from level 3 to level 1 or level 2 was immaterial.

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, majority of their fair values have been determined using applicable valuation techniques including 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
	2020 RMB'Million	2019 RMB'Million		2020	2019	
Investments in unlisted companies in FVPL and FVOCI	147,132	118,775	Expected volatility	27% ~ 63%	36% ~ 83%	Depends on rights and restrictions of shares held by the Group
			Risk-free rate	0.15%~5.35%	1.36%~6.68%	



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note: (continued)

For contingent consideration related to a business combination of a company, 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 15% (31 December 2019: 35%) and 35% (31 December 2019: 25%), 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 2020, the fair value would have increased approximately RMB73 million (2019: RMB65 million) or decreased approximately RMB97 million (2019: RMB66 million). If the expected volatility had been 5% higher or lower as at 31 December 2020, the fair value would have decreased approximately RMB66 million (2019: RMB34 million) or increased approximately RMB66 million (2019: RMB25 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 2.29(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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required to identify any impairment indicators existing for any of the Group's goodwill, other non-financial assets to determine appropriate impairment approaches, i.e., fair value less costs of disposal or value in use, for impairment review purposes, and to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 2.27(c), 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 judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Binomial Model (Note 34).

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD1,073 million (equivalent to approximately RMB976 million) in 2020 (2019: HKD3,250 million (equivalent to approximately RMB2,785 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. As at 31 December 2020, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be not lower than 91% (31 December 2019: not lower than 95%).

(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.



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For the year ended 31 December 2020

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 2020 and 2019:

- 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 income/(costs), net, share of profit/(loss) of associates and joint ventures 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 2020 and 2019. 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 2020 and 2019 is as follows:

	Year ended 31 December 2020				Total RMB'Million
	VAS RMB'Million	Online Advertising RMB'Million	FinTech and Business Services RMB'Million	Others RMB'Million	
Segment revenues	<u>264,212</u>	<u>82,271</u>	<u>128,086</u>	<u>7,495</u>	<u>482,064</u>
Gross profit	<u>142,925</u>	<u>42,260</u>	<u>36,251</u>	<u>96</u>	<u>221,532</u>
Depreciation	5,006	3,331	9,170	87	17,594
Amortisation	<u>17,771</u>	<u>6,628</u>	<u>30</u>	<u>2,329</u>	<u>26,758</u>

	Year ended 31 December 2019				Total RMB'Million
	VAS RMB'Million	Online Advertising RMB'Million	FinTech and Business Services RMB'Million	Others RMB'Million	
Segment revenues	<u>199,991</u>	<u>68,377</u>	<u>101,355</u>	<u>7,566</u>	<u>377,289</u>
Gross profit	<u>105,905</u>	<u>33,517</u>	<u>27,524</u>	<u>587</u>	<u>167,533</u>
Depreciation	3,461	2,065	6,669	108	12,303
Amortisation	<u>14,710</u>	<u>9,977</u>	<u>–</u>	<u>3,115</u>	<u>27,802</u>

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.



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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 2020 and 2019, breakdown of the total revenues by geographical location is as follows:

	2020 RMB'Million	2019 RMB'Million
Revenues		
– The Mainland of China	448,165	360,562
– Others	33,899	16,727
	<u>482,064</u>	<u>377,289</u>

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 and FVOCI) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2020 RMB'Million	2019 RMB'Million
Operating assets		
– The Mainland of China	400,062	345,721
– Others	242,477	168,714
Investments		
– The Mainland of China and Hong Kong	415,685	289,491
– North America	141,876	76,488
– Asia excluding the Mainland of China and Hong Kong	61,894	40,139
– Europe	57,750	29,707
– Others	13,681	3,726
	<u>1,333,425</u>	<u>953,986</u>



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5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

As at 31 December 2020, the total non-current assets other than financial instruments and deferred tax assets located in the Mainland of China and other regions amounted to RMB400,877 million (31 December 2019: RMB311,386 million) and RMB177,427 million (31 December 2019: RMB136,338 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 2020 and 2019.

(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)).

	2020 RMB'Million	2019 RMB'Million
Revenue from contracts with customers		
– VAS	264,212	199,991
<i>Online games</i>	156,101	114,710
<i>Social networks</i>	108,111	85,281
– Online Advertising	82,271	68,377
<i>Social and others advertising</i>	67,979	52,897
<i>Media advertising</i>	14,292	15,480
– FinTech and Business Services	128,086	101,355
– Others	7,495	7,566
	482,064	377,289



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For the year ended 31 December 2020

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	
	2020 RMB'Million	2019 RMB'Million
Contract liabilities:		
VAS	60,612	46,438
Online Advertising	4,797	7,939
FinTech and Business Services	6,952	2,013
Others	181	137
	<u>72,542</u>	<u>56,527</u>

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.



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For the year ended 31 December 2020

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 how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	2020 RMB'Million	2019 RMB'Million
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
VAS	43,030	31,787
Online Advertising	3,034	3,045
FinTech and Business Services	1,783	923
Others	137	174
	<u>47,984</u>	<u>35,929</u>

As at 31 December 2020, total capitalised costs to obtain or fulfill a contract with customer were immaterial.

6 INTEREST INCOME

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

7 OTHER GAINS, NET

	2020 RMB'Million	2019 RMB'Million
Net gains on disposals and deemed disposals of investee companies (Note (a))	24,390	8,492
Net fair value gains on FVPL	37,257	9,511
Impairment provision for investee companies, goodwill and other intangible assets arising from acquisitions (Note (b))	(11,422)	(4,006)
Subsidies and tax rebates	7,922	4,263
Net fair value gains on other financial instruments (Note 27 and Note 38)	1,652	1,647
Donations (Note (c))	(2,600)	(850)
Dividend income	1,765	1,014
Others	(1,833)	(382)
	57,131	19,689

Note:

- (a) The disposal and deemed disposal gains of approximately RMB24,390 million recognised during the year ended 31 December 2020 mainly comprised the following:
- net gains of approximately RMB15,492 million (2019: RMB4,859 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 mainly listed companies and principally engaged in Internet-related business; and
 - aggregate net gains of approximately RMB8,898 million (2019: RMB3,633 million) on disposals, partial disposals or other deemed disposals of various investments of the Group, including step down gains of approximately RMB2,592 million arising from investment in an associate transferred to FVOCI (Note 25(a)) as a result of retirement of board representative, and step up gains of approximately RMB2,189 million arising from the acquisition of HUYA Inc. ("HUYA"), an investment transferred from investment in an associate to a subsidiary (Note 41(a)).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

7 OTHER GAINS, NET (continued)

Note: (continued)

- (b) The impairment provision/(reversal) for investee companies, goodwill and other intangible assets arising from acquisitions mainly comprised the following:

	2020 RMB'Million	2019 RMB'Million
Investments in associates (Note 21)	5,254	3,877
Investments in joint ventures (Note 22)	1,388	(54)
Goodwill and other intangible assets arising from acquisitions	4,780	183
	<u>11,422</u>	<u>4,006</u>

- (c) The donations mainly include emergency funds to offer support to pandemic-related programmes and medical research.

8 EXPENSES BY NATURE

	2020 RMB'Million	2019 RMB'Million
Transaction costs (Note (a))	107,628	85,702
Employee benefits expenses (Note (b) and Note 13)	69,638	53,123
Content costs (excluding amortisation of intangible assets)	58,285	48,321
Amortisation of intangible assets (Note (c) and Note 20)	29,073	28,954
Bandwidth and server custody fees (excluding depreciation of right-of-use assets)	21,876	16,284
Depreciation of property, plant and equipment, investment properties and right-of-use assets (Note 16 and Note 18)	21,458	15,623
Promotion and advertising expenses	26,596	16,405
Auditor's remuneration		
– Audit and Audit-related services	127	105
– Non-audit services	37	43



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For the year ended 31 December 2020

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 2020, the Group incurred expenses for the purpose of research and development of approximately RMB38,972 million (2019: RMB30,387 million), which comprised employee benefits expenses of approximately RMB31,643 million (2019: RMB24,478 million).

During the year ended 31 December 2020, employee benefits expenses included the share-based compensation expenses of approximately RMB13,745 million (2019: RMB10,500 million). No significant development expenses had been capitalised for the years ended 31 December 2020 and 2019.

- (c) Amortisation charges of intangible assets is mainly related to media content including video and music contents, game licenses and literature copyrights. During the year ended 31 December 2020, amortisation of media content was approximately RMB26,620 million (2019: RMB27,758 million).

During the year ended 31 December 2020, amortisation of intangible assets included the amortisation of intangible assets resulting from business combinations of approximately RMB3,299 million (2019: RMB1,051 million).

9 FINANCE COSTS, NET

	2020	2019
	RMB'Million	RMB'Million
Interest and related expenses	7,449	7,690
Exchange losses/(gains), net	438	(77)
	<u>7,887</u>	<u>7,613</u>

Interest and related expenses mainly arose from the borrowings, notes payable and lease liabilities disclosed in Notes 35, 36 and 18, respectively.



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For the year ended 31 December 2020

10 SHARE OF PROFIT/(LOSS) OF ASSOCIATES AND JOINT VENTURES, NET

	2020 RMB'Million	2019 RMB'Million
Share of profit/(loss) of associates (Note 21)	3,748	(1,371)
Share of loss of joint ventures (Note 22)	(76)	(310)
	<u>3,672</u>	<u>(1,681)</u>

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 2020 and 2019.

(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 2020 and 2019.

(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 2020 and 2019. The general PRC CIT rate is 25% in 2020 and 2019.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11 TAXATION (continued)

(a) Income tax expense (continued)

(iii) PRC CIT (continued)

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11 TAXATION (continued)

(a) Income tax expense (continued)

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

	2020	2019
	RMB'Million	RMB'Million
Current income tax	19,499	14,730
Deferred income tax (Note 28)	398	(1,218)
	<u>19,897</u>	<u>13,512</u>

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 (2019: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2020	2019
	RMB'Million	RMB'Million
Profit before income tax	180,022	109,400
Share of (profit)/loss of associates and joint ventures, net	(3,672)	1,681
	<u>176,350</u>	<u>111,081</u>
Tax calculated at a tax rate of 25%	44,087	27,770
Effects of different tax rates applicable to different subsidiaries of the Group	(29,779)	(17,236)
Effects of tax holiday and preferential tax benefits on assessable profits of subsidiaries incorporated in the Mainland of China	(3,466)	(3,584)
Income not subject to tax	(65)	(71)
Expenses not deductible for tax purposes	1,555	1,177
Withholding tax on earnings expected to be remitted by subsidiaries (Note 28)	3,900	2,650
Unrecognised deferred income tax assets	3,658	3,027
Others	7	(221)
	<u>19,897</u>	<u>13,512</u>
Income tax expense	<u>19,897</u>	<u>13,512</u>



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For the year ended 31 December 2020

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”)	6~16% (Note i)	Sales value of goods sold and services fee income, offsetting by VAT on purchases
Cultural construction fee	3% (Note ii)	Taxable advertising income
City construction tax	7%	Net VAT payable amount
Educational surcharge	5%	Net VAT payable amount

Note:

- (i) Effective from 1 April 2019, the 16% and 10% VAT rates applicable to certain goods and services have been reduced to 13% and 9%, respectively.
- (ii) Effective from 1 July 2019 and until 31 December 2024, cultural construction fee has been reduced by 50% in certain jurisdictions, while during the period from 1 January 2020 to 31 December 2020, 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.

	2020	2019
Profit attributable to equity holders of the Company (RMB'Million)	<u>159,847</u>	<u>93,310</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,490</u>	<u>9,468</u>
Basic EPS (RMB per share)	<u>16.844</u>	<u>9.856</u>



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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 (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 to the Group's diluted EPS.

	2020	2019
Profit attributable to equity holders of the Company (RMB'Million)	159,847	93,310
Dilution effect arising from share-based awards issued by non wholly-owned subsidiaries and associates (RMB'Million)	(403)	(708)
Profit attributable to equity holders of the Company for the calculation of diluted EPS (RMB'Million)	159,444	92,602
Weighted average number of ordinary shares in issue (million shares)	9,490	9,468
Adjustments for share options and awarded shares (million shares)	160	135
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	9,650	9,603
Diluted EPS (RMB per share)	16.523	9.643



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13 EMPLOYEE BENEFITS EXPENSES

	2020 RMB'Million	2019 RMB'Million
Wages, salaries and bonuses	48,192	35,782
Contributions to pension plans (Note)	2,911	3,001
Share-based compensation expenses	13,745	10,500
Welfare, medical and other expenses (Note)	4,679	3,725
Training expenses	111	115
	<u>69,638</u>	<u>53,123</u>

Note:

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 2020 and 2019 are listed below:

	Percentage
Pension insurance	12.0 ~ 20.0%
Medical insurance	5.2 ~ 10.5%
Unemployment insurance	0.32 ~ 1.5%
Housing fund	10.0 ~ 12.0%



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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:

	2020 RMB'000	2019 RMB'000
Salaries, bonuses, allowances and benefits in kind	466,665	379,536
Contributions to pension plans	713	759
Share-based compensation expenses	2,696,137	2,219,669
	3,163,515	2,599,964

The emoluments of the senior management fell within the following bands:

	Number of individuals	
Emolument bands	2020	2019
HKD8,000,000 ~ HKD50,000,000	2	1
HKD50,000,001 ~ HKD200,000,000	6	9
HKD200,000,001 ~ HKD400,000,000	3	–
HKD400,000,001 ~ HKD800,000,000	–	–
HKD800,000,001 ~ HKD1,200,000,000	2	2



Notes to the Consolidated Financial Statements

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13 EMPLOYEE BENEFITS EXPENSES (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2020 (2019: one). All of these individuals including that one director (Note 14(a)) have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2020 and 2019. The emoluments paid/payable to the remaining four (2019: four) individuals during the year were as follows:

	2020	2019
	RMB'000	RMB'000
Salaries and bonuses	553,590	514,296
Contributions to pension plans	3,846	4,565
Share-based compensation expenses	1,957,518	1,512,706
Allowances and benefits in kind	156	90
	<u>2,515,110</u>	<u>2,031,657</u>

The emoluments of the above four individuals (2019: four) fell within the following bands:

	Number of individuals	
Emolument bands	2020	2019
HKD221,000,001 ~ HKD221,500,000	–	2
HKD352,500,001 ~ HKD353,000,000	1	–
HKD357,500,001 ~ HKD358,000,000	1	–
HKD860,500,001 ~ HKD861,000,000	–	1
HKD964,500,001 ~ HKD965,000,000	–	1
HKD1,121,500,001 ~ HKD1,122,000,000	1	–
HKD1,155,500,001 ~ HKD1,156,000,000	1	–



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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 2020:

Name of director	Fees RMB'000	Salaries and bonuses RMB'000	Contributions	Share-based	Allowances	Total RMB'000
			to pension plans RMB'000	compensation expenses RMB'000	and benefits in kind RMB'000 (Note (i))	
Ma Huateng (CEO)	1,174	57,452	88	–	24	58,738
Lau Chi Ping Martin	1,174	40,115	–	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	97,567	88	402,287	109	506,860



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14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and the chief executive's emoluments (continued)

During the year ended 31 December 2019:

Name of director	Fees	Salaries and bonuses	Contributions to pension plans	Share-based compensation expenses	Allowances and benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Note (i))	
Ma Huateng (CEO)	1,256	45,256	91	–	22	46,625
Lau Chi Ping Martin	1,256	34,204	–	319,216	85	354,761
Iain Ferguson Bruce	985	–	–	3,761	–	4,746
Ian Charles Stone	985	–	–	4,572	–	5,557
Li Dong Sheng	717	–	–	2,285	–	3,002
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	896	–	–	3,447	–	4,343
Ke Yang	716	–	–	306	–	1,022
	<u>6,811</u>	<u>79,460</u>	<u>91</u>	<u>333,587</u>	<u>107</u>	<u>420,056</u>

Note:

- (i) Allowances and benefits in kind include leave pay, insurance premium and club membership.
- (ii) During the year ended 31 December 2020, 4,399,815 options (2019: 3,506,580 options) were granted to one executive director of the Company, and 59,500 awarded shares were granted to five independent non-executive directors of the Company (2019: 59,484 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 2020 and 2019.



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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

The final dividends amounting to HKD11,378 million (2019: HKD9,463 million) were paid during the year ended 31 December 2020.

A final dividend in respect of the year ended 31 December 2020 of HKD1.60 per share (2019: HKD1.20 per share) was proposed pursuant to a resolution passed by the Board on 24 March 2021 and subject to the approval of the shareholders at the 2021 annual general meeting of the Company to be held on 20 May 2021 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 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	<u>10,238</u>	<u>34,214</u>	<u>829</u>	<u>24</u>	<u>1,519</u>	<u>46,824</u>
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	<u>11,228</u>	<u>46,202</u>	<u>988</u>	<u>70</u>	<u>1,355</u>	<u>59,843</u>
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	<u>11,228</u>	<u>46,202</u>	<u>988</u>	<u>70</u>	<u>1,355</u>	<u>59,843</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Computer and other operating equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2019						
Cost	9,313	44,835	1,370	44	2,443	58,005
Accumulated depreciation and impairment	(1,677)	(19,297)	(808)	(26)	(1,241)	(23,049)
Currency translation differences	(1)	43	13	–	80	135
Net book amount	<u>7,635</u>	<u>25,581</u>	<u>575</u>	<u>18</u>	<u>1,282</u>	<u>35,091</u>
Year ended 31 December 2019						
Opening net book amount	7,635	25,581	575	18	1,282	35,091
Business combinations	–	74	2	–	38	114
Additions	3,509	19,623	463	13	509	24,117
Disposals	(9)	(16)	(7)	–	(5)	(37)
Depreciation	(897)	(11,113)	(205)	(7)	(322)	(12,544)
Currency translation differences	–	65	1	–	17	83
Closing net book amount	<u>10,238</u>	<u>34,214</u>	<u>829</u>	<u>24</u>	<u>1,519</u>	<u>46,824</u>
At 31 December 2019						
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	<u>10,238</u>	<u>34,214</u>	<u>829</u>	<u>24</u>	<u>1,519</u>	<u>46,824</u>

During the year ended 31 December 2020, depreciation of RMB15,654 million (2019: RMB10,828 million), RMB256 million (2019: RMB203 million) and RMB1,748 million (2019: RMB1,513 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

17 LAND USE RIGHTS

	2020 RMB'Million	2019 RMB'Million
Opening net book amount	15,609	7,106
Business combinations	155	–
Additions	793	8,714
Amortisation	(465)	(211)
Currency translation differences	(1)	–
Closing net book amount	16,091	15,609

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 29 to 54 years.

18 LEASES (EXCLUDING LAND USE RIGHTS)

(a) Amounts recognised in the consolidated statement of financial position

Except recognition of lease liabilities, the carrying amounts of right-of-use assets (excluding land use rights, disclosed in Note 17), are as below:

	Buildings RMB'Million	Computer and other operating equipment RMB'Million	Others RMB'Million	Total RMB'Million
Net book amount as at 1 January 2020	5,574	5,253	20	10,847
Net book amount as at 31 December 2020	6,112	6,775	42	12,929

Additions to the right-of-use assets (excluding land use rights, disclosed in Note 17) during the year ended 31 December 2020 were RMB6,311 million (2019: RMB4,241 million), including acquired assets arising from business combinations.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

18 LEASES (EXCLUDING LAND USE RIGHTS) (continued)

(b) Amounts recognised in consolidated income statement

The consolidated income statement shows the following amounts relating to leases (excluding the amortisation of land use rights, disclosed in Note 17):

	2020 RMB'Million	2019 RMB'Million
Depreciation charge of right-of-use assets		
Buildings	1,782	1,543
Computer and other operating equipment	1,972	1,501
Others	19	5
	<u>3,773</u>	<u>3,049</u>
Interest expense (included in finance costs, net)	559	541
Expense relating to short-term leases not included in lease liabilities (included in cost of revenues and expenses)	1,475	1,344
Expense relating to variable lease payments not included in lease liabilities (included in cost of revenues and expenses)	3,983	2,783

Some computer equipments 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 condition that triggers those payments occur. Variable lease payments relating to computer equipment leases during the year ended 31 December 2020 were considered to be insignificant.

The total cash outflow in financing activities for leases during the year ended 31 December 2020 was approximately RMB4,068 million (2019: RMB2,882 million), including principal elements of lease payments of approximately RMB3,537 million (2019: RMB2,400 million) and related interest paid of approximately RMB531 million (2019: RMB482 million), respectively.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

19 CONSTRUCTION IN PROGRESS

	2020	2019
	RMB'Million	RMB'Million
Opening net book amount	3,935	4,879
Additions	3,408	3,168
Transfer to property, plant and equipment	(2,415)	(4,111)
Currency translation differences	11	(1)
	<hr/>	<hr/>
Closing net book amount	4,939	3,935
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2020, construction in progress mainly comprised office buildings and data centres under construction located in the PRC.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

20 INTANGIBLE ASSETS

	Goodwill	Computer software and technology	Media contents	Trademarks	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	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	<u>93,456</u>	<u>1,956</u>	<u>23,540</u>	<u>7,759</u>	<u>2,149</u>	<u>128,860</u>
Year ended 31 December 2020						
Opening net book amount	93,456	1,956	23,540	7,759	2,149	128,860
Business combinations (Note 41)	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	<u>108,623</u>	<u>3,627</u>	<u>34,162</u>	<u>10,000</u>	<u>3,025</u>	<u>159,437</u>
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	<u>108,623</u>	<u>3,627</u>	<u>34,162</u>	<u>10,000</u>	<u>3,025</u>	<u>159,437</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

20 INTANGIBLE ASSETS (continued)

	Goodwill	Computer software and technology	Media contents	Trademarks	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2019						
Cost	33,730	3,902	54,292	1,710	3,089	96,723
Accumulated amortisation and impairment	(1,348)	(2,060)	(35,040)	(482)	(1,445)	(40,375)
Currency translation differences	223	8	78	(1)	(6)	302
Net book amount	<u>32,605</u>	<u>1,850</u>	<u>19,330</u>	<u>1,227</u>	<u>1,638</u>	<u>56,650</u>
Year ended 31 December 2019						
Opening net book amount	32,605	1,850	19,330	1,227	1,638	56,650
Business combinations	60,326	145	7,143	6,793	845	75,252
Additions	–	502	25,870	33	169	26,574
Disposals	–	–	(1,049)	–	(11)	(1,060)
Amortisation	–	(470)	(27,758)	(223)	(503)	(28,954)
Impairment provision	(20)	(81)	(51)	(81)	(1)	(234)
Currency translation differences	545	10	55	10	12	632
Closing net book amount	<u>93,456</u>	<u>1,956</u>	<u>23,540</u>	<u>7,759</u>	<u>2,149</u>	<u>128,860</u>
At 31 December 2019						
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	<u>93,456</u>	<u>1,956</u>	<u>23,540</u>	<u>7,759</u>	<u>2,149</u>	<u>128,860</u>

During the year ended 31 December 2020, amortisation of RMB26,758 million (2019: RMB27,802 million) and RMB2,315 million (2019: RMB1,152 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2020, impairment losses of RMB4,780 million (2019: RMB183 million) on goodwill and other intangible assets were charged to the consolidated income statement under “Other gains/(losses), net”, and RMB92 million (2019: RMB51 million) were charged to “cost of revenues”.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

20 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB104,688 million (31 December 2019: RMB86,489 million), FinTech and Business Services segment with RMB1,018 million (31 December 2019: RMB34 million) and Others segment with RMB2,917 million (31 December 2019: RMB6,933 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 businesses in online music, online literature, television series and film production and Business Services, value in use using discounted cash flows was calculated, in most cases, based on five-year period to ten-year period 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% (2019: not more than 5%). Pre-tax discount rates ranging from 13% to 23% (2019: 13% to 25%) were adopted, 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 22% (2019: not more than 18%).



Notes to the Consolidated Financial Statements

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20 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

During the six months ended 30 June 2020, the goodwill impairment was mainly related to an acquired business engaged in television series and film production business within Others segment. Management has considered that the film and television industry in the Mainland of China is undergoing profound adjustment, as it responds to the fluid and changing macro-environment which has been affected by the novel coronavirus pandemic, and accordingly the Group's acquired TV and film production business has been suffering substantially due to production delays and uncertain release dates. For the purpose of impairment testing, management considered the acquired TV and film production business as a CGU, and the recoverable amount of the CGU was determined using discounted cash flow calculations which derived from a six-year financial projection with annual revenue growth rate ranging from -43.4% to 21.7% and pre-tax discount rate of 18.7%. Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. As of 31 December 2020, the impairment review of the goodwill relating to the acquired TV and film production business was conducted again by the management using the same valuation method as of 30 June 2020.

For goodwill attributable to the Group's online game business and interactive live video business within VAS segment, fair value less costs of disposal was determined based on quoted market price of a listed subsidiary or ratios of EV (enterprise value) divided by EBITDA of several comparable public companies (range: 20-27x) (2019: range: 10-25x) 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% (2019: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks.

Except as described above, management has not identified reasonably possible change in key assumptions that could cause carrying amounts of the CGUs (or groups of CGUs) to exceed the recoverable amount.



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21 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	171,048	141,350
– Unlisted entities	126,561	72,264
	<u>297,609</u>	<u>213,614</u>
	2020	2019
	RMB'Million	RMB'Million
At beginning of the year	213,614	219,215
Additions (Note (a))	37,651	14,077
Transfers (Note (b))	33,585	(18,948)
Deemed disposal gains (Note 7(a))	15,492	4,859
Share of profit/(loss) of associates (Note 10)	3,748	(1,371)
Share of other comprehensive income of associates	363	130
Share of other changes in net assets of associates	3,310	2,322
Dividends	(344)	(550)
Disposals	(2,227)	(3,555)
Impairment provision, net (Note (c))	(5,254)	(3,877)
Currency translation differences	(2,329)	1,312
	<u>297,609</u>	<u>213,614</u>
At end of the year		



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21 INVESTMENTS IN ASSOCIATES (continued)

Note:

- (a) During the year ended 31 December 2020, 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 10% equity interests in Universal Music Group ("UMG") from its parent company, Vivendi S.A.. According to the subscription agreements, the Group has significant influence on the UMG Consortium. The Group's investment in the UMG Consortium amounted to approximately EUR1.2 billion. As a result, the investment in the UMG Consortium has been accounted for as an associate by the Group; and
 - (ii) new associates and additional investments in existing associates with an aggregate amount of approximately RMB28,600 million during the year ended 31 December 2020 are principally engaged in online automobile finance transaction platform, games, software and other Internet-related business.
- (b) During the year ended 31 December 2020, transfers mainly comprised the following:
- (i) HUYA, an existing associate of approximately RMB5,221 million transferred to a subsidiary as a result of business combination (Note 41(a));
 - (ii) an existing associate of approximately RMB2,349 million transferred to FVOCI as a result of retirement of board representative; and
 - (iii) investments in associates of approximately RMB39,615 million transferred from FVPL as a result of changes in nature of these investments and investments in associates of approximately RMB5,075 million transferred from FVOCI due to acquiring board representatives.
- (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 include revenue growth rate, profit margins and discount rate. The pre-tax discount rates adopted range from 9% to 20%. In respect of the recoverable amount based on fair value less costs of disposal, except for those listed associates using their respective market prices, the fair value less costs of disposal was calculated using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

As a result, the Group made an aggregate impairment provision of approximately RMB5,254 million (2019: RMB3,877 million) against the carrying amounts of certain investments in associates during the year ended 31 December 2020, which includes impairment loss of approximately RMB10,611 million recognised and approximately RMB5,357 million reversed. The impairment provision/reversal mainly resulted from revisions of financial/business outlook of the associates and changes in the market environment of the underlying business.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 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	Liabilities	Revenues	Profit/(loss)	Other	Total	Fair value
	RMB'Million	RMB'Million	RMB'Million	from	comprehensive	comprehensive	of stakes
				continuing	income	income/(loss)	in listed
				operation			associates
				RMB'Million	RMB'Million	RMB'Million	as at
							31 December
							RMB'Million
2020							
Listed entities	<u>313,183</u>	<u>142,135</u>	<u>202,612</u>	<u>3,867</u>	<u>549</u>	<u>4,416</u>	<u>981,902</u>
Non-listed entities	<u>314,850</u>	<u>188,289</u>	<u>54,044</u>	<u>(119)</u>	<u>(186)</u>	<u>(305)</u>	
	<u><u>628,033</u></u>	<u><u>330,424</u></u>	<u><u>256,656</u></u>	<u><u>3,748</u></u>	<u><u>363</u></u>	<u><u>4,111</u></u>	
2019							
Listed entities	<u>243,940</u>	<u>102,590</u>	<u>167,222</u>	<u>(4,462)</u>	<u>164</u>	<u>(4,298)</u>	<u>334,688</u>
Non-listed entities	<u>194,518</u>	<u>122,254</u>	<u>42,458</u>	<u>3,091</u>	<u>(34)</u>	<u>3,057</u>	
	<u><u>438,458</u></u>	<u><u>224,844</u></u>	<u><u>209,680</u></u>	<u><u>(1,371)</u></u>	<u><u>130</u></u>	<u><u>(1,241)</u></u>	



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 RMB212,349 million and RMB15,936 million as at 31 December 2020, respectively (31 December 2019: RMB145,971 million and RMB13,393 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 2020, the Group's investments in joint ventures of RMB7,649 million (31 December 2019: RMB8,280 million) mainly comprised investee companies that are principally a special purpose vehicle of which we have 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 business.

Share of loss amounting to RMB76 million was recognised during the year ended 31 December 2020 (2019: share of loss of RMB310 million) (Note 10).

During the year ended 31 December 2020, the Group made an aggregate impairment provision of RMB1,388 million (2019: impairment reversal of RMB54 million) against the carrying amounts of the investments in joint ventures, based on the respective assessed recoverable amounts.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

23 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2020, the financial instruments of the Group are analysed as follows:

	As at 31 December	
	2020 RMB'Million	2019 RMB'Million
Financial assets		
Financial assets at amortised cost:		
Deposits and other receivables (Note 26)	17,527	12,512
Term deposits (Note 29)	100,168	65,911
Accounts receivable (Note 30)	44,981	35,839
Cash and cash equivalents (Note 31(a))	152,798	132,991
Restricted cash (Note 31(b))	2,520	2,180
Other financial assets (Note 27)	8	–
Financial assets at fair value:		
FVPL (Note 24)	172,537	135,936
FVOCI (Note 25)	213,091	81,721
Other financial assets (Note 27)	1,129	375
	704,759	467,465
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings (Note 35)	126,387	126,952
Notes payable (Note 36)	122,057	93,861
Long-term payables (Note 37)	9,910	3,577
Other financial liabilities (Note 38)	9,512	8,703
Accounts payable (Note 39)	94,030	80,690
Lease liabilities (Note 18)	14,020	11,707
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 40)	27,873	23,528
Financial liabilities at fair value:		
Other financial liabilities (Note 38)	5,309	2,396
	409,098	351,414



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current assets:		
Investments in listed entities	23,554	10,408
Investments in unlisted entities	133,506	111,761
Treasury investments and others	8,884	6,653
	165,944	128,822
Included in current assets:		
Investments in listed entities	10	15
Treasury investments and others	6,583	7,099
	6,593	7,114
	172,537	135,936



Notes to the Consolidated Financial Statements

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24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Movement of FVPL is analysed as follows:

	2020 RMB'Million	2019 RMB'Million
At beginning of the year	135,936	97,877
Additions and transfers (Note (a) and Note 21(b))	21,960	43,197
Changes in fair value (Note 7)	37,257	9,511
Disposals and others	(13,314)	(16,664)
Currency translation differences	(9,302)	2,015
At end of the year	172,537	135,936

Note:

- (a) During the year ended 31 December 2020, the Group's additions and transfers mainly comprised the following:
- (i) an additional investment in an online video-sharing services platform of approximately USD1.5 billion (equivalent to approximately RMB10.3 billion), which was transferred to investments in associates as a result of changes in nature of the investment;
 - (ii) an additional investment in an online education platform in the Mainland of China of approximately USD720 million (equivalent to approximately RMB4,982 million);
 - (iii) new investments and additional investments with an aggregate amount of approximately RMB47,803 million in listed and unlisted entities. These companies are principally engaged in eCommerce, Internet platform, technology and other Internet-related businesses. None of the above investments was individually significant that triggers any disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time of inception; and
 - (iv) except as described in Note 21(b), transfers also mainly comprised certain investments with an aggregate amount of RMB1,723 million designated as FVOCI due to the conversion of preferred shares into ordinary shares upon their initial public offering ("IPO").
- (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.



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25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Equity investments in listed entities	199,465	74,707
Equity investments in unlisted entities	13,626	7,014
	<u>213,091</u>	<u>81,721</u>

Movement of FVOCI is analysed as follows:

	2020	2019
	RMB'Million	RMB'Million
At beginning of the year	81,721	43,519
Additions and transfers (Note (a))	16,474	13,979
Changes in fair value	131,655	23,349
Disposals	(6,957)	(702)
Currency translation differences	(9,802)	1,576
	<u>213,091</u>	<u>81,721</u>

Note:

- (a) It mainly comprised new and additional investments of approximately RMB12,942 million, transfers described in Note 21(b) and Note 24(a), and step down gains due to an investee company transferred from investment in an associate of approximately RMB2,592 million (Note 7 (a)).



Notes to the Consolidated Financial Statements

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26 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media contents and game licences	15,415	15,731
Loans to investees and investees' shareholders (Note (a))	1,078	937
Prepayments for capital investments in investees	889	587
Running royalty fees for online games (Note (b))	667	564
Others	6,581	5,623
	24,630	23,442
Included in current assets:		
Running royalty fees for online games (Note (b))	14,499	10,888
Prepayments and prepaid expenses	10,244	8,353
Receivables related to financial services	3,700	19
Interest receivables	2,948	2,774
Lease deposits and other deposits	966	1,107
Refundable value-added tax	865	629
Loans to investees and investees' shareholders (Note (a))	258	447
Dividend and other investment-related receivables	182	1,034
Others	6,659	2,589
	40,321	27,840
	64,951	51,282

Note:

- (a) As at 31 December 2020, the balances of loans to investees and investees' shareholders are 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 2019: 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 2020, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax) approximated their fair values. Deposits and other assets were neither past due nor impaired.



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27 OTHER FINANCIAL ASSETS

As at 31 December 2020, the Group's current other financial assets mainly comprised a derivative contract and a call option held by a subsidiary of the Group to acquire additional equity interests in an investee company of the Group.

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	
	2020	2019
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	13,132	11,412
– to be recovered within 12 months	11,873	8,966
	<u>25,005</u>	<u>20,378</u>
Deferred income tax liabilities:		
– to be recovered after more than 12 months	(17,991)	(13,916)
– to be recovered within 12 months	(1,727)	(1,094)
	<u>(19,718)</u>	<u>(15,010)</u>



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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 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 tax assets/liabilities	(1,488)	1,488	–
	<u>21,348</u>	<u>(16,061)</u>	<u>5,287</u>
At 31 December 2020	21,348	(16,061)	5,287

	Deferred income tax assets RMB'Million	Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2019	15,755	(10,964)	4,791
Business combinations	20	(2,967)	(2,947)
Credited/(charged) to consolidated income statement (Note 11)	4,455	(3,237)	1,218
Withholding taxes paid	–	2,545	2,545
Credited/(charged) to consolidated statement of changes in equity	108	(338)	(230)
Currency translation differences	40	(49)	(9)
Set-off of deferred tax assets/liabilities	(2,169)	2,169	–
	<u>18,209</u>	<u>(12,841)</u>	<u>5,368</u>
At 31 December 2019	18,209	(12,841)	5,368



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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 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
At 1 January 2019	4,404	91	8,078	3,182	15,755
Business combinations	–	–	–	20	20
Credited to consolidated income statement	1,651	593	588	1,623	4,455
Credited to consolidated statement of changes in equity	–	–	–	108	108
Currency translation differences	–	–	–	40	40
At 31 December 2019	6,055	684	8,666	4,973	20,378

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts 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 2020, the Group did not recognise deferred income tax assets of RMB2,783 million (31 December 2019: RMB1,889 million) in respect of cumulative tax losses amounting to RMB12,690 million (31 December 2019: RMB8,569 million). These tax losses in the Mainland of China will expire from 2021 to 2025.



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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						Total RMB'Million
	Intangible assets acquired in business combinations RMB'Million	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'Million	Change in fair value of FVPL and FVOCI RMB'Million	Deemed disposals of investees RMB'Million	Accelerated tax depreciation RMB'Million	Others RMB'Million	
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)
At 1 January 2019	(892)	(5,668)	(1,299)	(919)	(1,634)	(552)	(10,964)
Business combinations	(2,958)	-	-	-	-	(9)	(2,967)
Credited/(charged) to consolidated income statement	223	(2,650)	(89)	33	(1,112)	358	(3,237)
Withholding tax paid	-	2,545	-	-	-	-	2,545
Charged to consolidated statement of changes in equity	-	-	(338)	-	-	-	(338)
Currency translation differences	-	(8)	(17)	-	-	(24)	(49)
At 31 December 2019	(3,627)	(5,781)	(1,743)	(886)	(2,746)	(227)	(15,010)



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28 DEFERRED INCOME TAXES (continued)

As at 31 December 2020, the Group recognised the relevant deferred income tax liabilities of RMB6,188 million (31 December 2019: RMB5,781 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 RMB33,832 million (31 December 2019: RMB21,139 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	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	31,665	19,000
Other currencies	16	–
	31,681	19,000
Included in current assets:		
RMB term deposits	51,491	28,598
USD term deposits	14,083	16,325
Other currencies	2,913	1,988
	68,487	46,911
	100,168	65,911

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2020, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.



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30 ACCOUNTS RECEIVABLE

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Accounts receivable from contracts with customers	48,873	37,268
Loss allowance	(3,892)	(1,429)
	<u>44,981</u>	<u>35,839</u>

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

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
0 ~ 30 days	19,708	15,582
31 ~ 60 days	10,867	10,222
61 ~ 90 days	4,506	5,035
Over 90 days	9,900	5,000
	<u>44,981</u>	<u>35,839</u>

Majority of the Group's accounts receivable were denominated in RMB.



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30 ACCOUNTS RECEIVABLE (continued)

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Online advertising customers and agencies	12,961	11,797
Content production related customers	5,580	5,260
FinTech and cloud customers	15,835	10,208
Third party platform providers	5,416	5,259
Others	5,189	3,315
	44,981	35,839

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 year ended 31 December 2020 and 2019, information about the impairment of accounts receivable and the Group's exposure to credit risk and foreign currency risk can be found in Note 3.1.

As at 31 December 2020, the carrying amounts of accounts receivable approximated their fair values.



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31 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2020 RMB'Million	2019 RMB'Million
Bank balances and cash	85,233	60,907
Term deposits and highly liquid investments with initial terms within three months	67,565	72,084
	<u>152,798</u>	<u>132,991</u>

Approximately RMB58,651 million (31 December 2019: RMB62,963 million) and RMB7,207 million (31 December 2019: RMB805 million) of the total balance of the Group's cash and cash equivalents was denominated in RMB and placed with banks in the Mainland of China and Hong Kong, respectively.

(b) Restricted cash

As at 31 December 2020, restricted deposits held at banks of RMB2,520 million (31 December 2019: RMB2,180 million) were mainly denominated in RMB.



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32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

As at 31 December 2020 and 2019, 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 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



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32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

	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 2019	9,520,307,091	–	27,294	(4,173)	23,121
Employee share option schemes:					
– value of employee services	–	–	2,041	–	2,041
– shares issued (Note (a))	1,612,741	–	272	–	272
Employee share award schemes:					
– value of employee services	–	–	7,303	–	7,303
– shares withheld for share award schemes (Note (b))	–	–	–	(1,186)	(1,186)
– shares allotted for share award schemes (Note (c))	34,182,154	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(1,357)	1,357	–
Repurchase and cancellation of shares	(3,486,700)	–	(1,046)	–	(1,046)
Acquisition of additional equity interests in non wholly-owned subsidiaries	–	–	276	–	276
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	488	–	488
At 31 December 2019	<u>9,552,615,286</u>	<u>–</u>	<u>35,271</u>	<u>(4,002)</u>	<u>31,269</u>

* As at 31 December 2020, the total number of issued ordinary shares of the Company included 81,517,187 shares (31 December 2019: 77,967,786 shares) held under the Share Award Schemes.



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32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

Note:

- (a) During the year ended 31 December 2020, 15,656,921 Post-IPO options (2019: 1,612,741 Post-IPO options) with exercise prices ranging from HKD112.30 to HKD444.20 (2019: HKD49.76 to HKD272.36) were exercised. 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 price and individual income tax payable by the grantees when they exercise their options.
- (b) During the year ended 31 December 2020, the Share Scheme Trust withheld 4,259,939 ordinary shares (2019: 4,047,457 ordinary shares) of the Company for an amount of approximately HKD2,108 million (equivalent to approximately RMB1,865 million) (2019: HKD1,332 million (equivalent to approximately RMB1,186 million)), which had been deducted from the equity.
- (c) During the year ended 31 December 2020, the Company allotted 26,640,678 ordinary shares (2019: 34,182,154 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 2020, the Share Scheme Trust transferred 27,351,216 ordinary shares of the Company (2019: 23,537,445 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 34(b)).



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33 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 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 of associates	-	-	(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 the financial liabilities in respect of the put option from business combination	(2,730)	-	-	-	-	-	-	(2,730)
Changes in put option liability in respect of non-controlling interests	(765)	-	-	-	-	-	-	(765)
Dilution of 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



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33 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 2019	<u>(3,332)</u>	<u>(10,714)</u>	<u>5,112</u>	<u>217</u>	<u>2,790</u>	<u>4,847</u>	<u>1,809</u>	<u>729</u>
Transfer of gains on disposal and deemed disposal of FVOCI to retained earnings (Note (d))	-	(720)	-	-	-	-	-	(720)
Share of other changes in net assets of associates	-	-	2,322	-	-	-	-	2,322
Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates	-	-	(149)	-	-	-	-	(149)
Value of employee services:								
- Employee share option schemes	-	-	-	-	-	62	-	62
- Employee share award schemes	-	-	-	-	-	379	-	379
Tax benefit from share-based payments	-	-	-	-	-	529	-	529
Acquisition of additional equity interests in non wholly-owned subsidiaries	(534)	-	-	-	-	-	-	(534)
Transfer of equity interests of subsidiaries to non-controlling interests	(4,849)	-	-	-	-	-	-	(4,849)
Recognition of the financial liabilities in respect of the put option from business combination	(4,722)	-	-	-	-	-	-	(4,722)
Dilution of interests in subsidiaries	(355)	-	-	-	-	-	-	(355)
Profit appropriations to statutory reserves	-	-	-	-	734	-	-	734
Net gains from changes in fair value of FVOCI	-	22,601	-	-	-	-	-	22,601
Share of other comprehensive income of associates and joint ventures	-	-	126	-	-	-	-	126
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates	-	-	(3)	-	-	-	-	(3)
Currency translation differences	-	-	-	2,928	-	-	-	2,928
Other fair value losses, net	-	-	-	-	-	-	(2,292)	(2,292)
Balance at 31 December 2019	<u>(13,792)</u>	<u>11,167</u>	<u>7,408</u>	<u>3,145</u>	<u>3,524</u>	<u>5,817</u>	<u>(483)</u>	<u>16,786</u>



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33 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 does not need 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 34(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.



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34 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 2020, 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 2020, the Company allows certain of the grantees under the Post-IPO Option Scheme II to surrender their rights to receive a portion of the underlying shares (with equivalent fair value) to set off against the exercise price and individual income tax payable when they exercise their options.



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34 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 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	<u>(4,450)</u>	HKD364.34	<u>(512,727)</u>	<u>(517,177)</u>
At 31 December 2020	HKD205.36	<u>37,435,134</u>	HKD380.50	<u>67,806,750</u>	<u>105,241,884</u>
Exercisable as at 31 December 2020	HKD200.96	<u>30,654,571</u>	HKD376.39	<u>20,038,030</u>	<u>50,692,601</u>
At 1 January 2019	HKD185.25	51,499,010	HKD374.52	36,277,234	87,776,244
Granted	–	–	HKD374.01	26,249,615	26,249,615
Exercised	HKD158.51	(1,138,985)	HKD272.36	(473,756)	(1,612,741)
Lapsed/forfeited	HKD148.90	<u>(1,225)</u>	HKD320.56	<u>(314,900)</u>	<u>(316,125)</u>
At 31 December 2019	HKD185.86	<u>50,358,800</u>	HKD375.36	<u>61,738,193</u>	<u>112,096,993</u>
Exercisable as at 31 December 2019	HKD172.30	<u>33,855,872</u>	HKD363.68	<u>10,997,475</u>	<u>44,853,347</u>

During the year ended 31 December 2020, 4,399,815 options (2019: 3,506,580 options) were granted to an executive director of the Company.

During the year ended 31 December 2020, 15,656,921 options (2019: 1,612,741 options) were exercised. The weighted average price of the shares at the time these options were exercised was HKD539.43 per share (equivalent to approximately RMB464.09 per share) (2019: HKD339.07 per share (equivalent to approximately RMB301.04 per share)).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(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 2020 and 2019 are as follows:

Expiry Date	Range of exercise price	Number of share options	
		31 December 2020	31 December 2019
7 years commencing from the date of grant of options (Post-IPO Option Scheme II and Post-IPO Option Scheme IV)	HKD112.30~HKD174.86	11,082,519	22,761,755
	HKD225.44~HKD272.36	32,520,471	35,450,183
	HKD334.20~HKD386.60	37,549,600	31,308,935
	HKD403.16~HKD444.20	22,362,446	22,576,120
	HKD518.00~HKD586.00	1,726,848	–
		105,241,884	112,096,993

The outstanding share options as of 31 December 2020 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from ten months to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34 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 2020 was HKD115.13 per share (equivalent to approximately RMB104.72 per share) (2019: HKD123.82 per share (equivalent to approximately RMB106.09 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.

	2020	2019
Weighted average share price at the grant date	HKD396.24	HKD373.33
Risk free rate	0.27%~1.52%	1.08%~2.07%
Dividend yield	0.23%	0.23%
Expected volatility (Note)	30.00%~31.00%	30.00%

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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted three share award schemes (the “Share Award Schemes”) as of 31 December 2020, 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 2020 and 2019 are as follows:

	Number of awarded shares	
	2020	2019
At beginning of the year	76,615,755	50,247,895
Granted	37,196,540	53,096,782
Lapsed/forfeited	(3,866,143)	(3,191,477)
Vested and transferred	(27,351,216)	(23,537,445)
At end of the year	82,594,936	76,615,755
Vested but not transferred as at the end of the year	30,172	46,313

During the year ended 31 December 2020, 59,500 awarded shares were granted to five independent non-executive directors of the Company (2019: 59,484 awarded shares were granted to five independent non-executive directors of the Company).

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 2020 was HKD481.61 per share (equivalent to approximately RMB431.90 per share) (2019: HKD360.25 per share (equivalent to approximately RMB313.18 per share)).

The outstanding awarded shares as of 31 December 2020 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 eight months to five years from the grant date, and the remaining tranches will become exercisable in each subsequent year.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34 SHARE-BASED PAYMENTS (continued)

(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 five EISs established in 2014, 2015, 2016, and 2017 are in effect as at 31 December 2020. 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 2020 and 2019 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 by using either 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.

(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 2020, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be not lower than 91% (31 December 2019: not lower than 95%).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

35 BORROWINGS

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	110,629	88,354
Non-current portion of long-term EUR bank borrowings, unsecured (Note (a))	1,204	1,172
Non-current portion of long-term EUR bank borrowings, secured (Note (a))	12	–
Non-current portion of long-term RMB bank borrowings, unsecured (Note (a))	300	10,196
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	–	4,535
	<u>112,145</u>	<u>104,257</u>
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	9,135	6,627
HKD bank borrowings, unsecured (Note (b))	–	9,298
HKD bank borrowings, secured (Note (b))	144	–
RMB bank borrowings, unsecured (Note (b))	4,079	902
RMB bank borrowings, secured (Note (b))	100	201
Current portion of long-term USD bank borrowings, unsecured (Note (a))	783	140
Current portion of long-term RMB bank borrowings, unsecured (Note (a))	–	4,633
Current portion of long-term EUR bank borrowings, secured (Note (a))	1	–
Current portion of long-term HKD bank borrowings, unsecured (Note (a))	–	894
	<u>14,242</u>	<u>22,695</u>
	<u><u>126,387</u></u>	<u><u>126,952</u></u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

35 BORROWINGS (continued)

Note:

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

	31 December 2020		31 December 2019	
	Amount (Million)	Interest rate (per annum)	Amount (Million)	Interest rate (per annum)
USD bank borrowings	USD17,075	LIBOR + 0.70% ~ 1.27%	USD12,685	LIBOR + 0.70% ~ 1.27%
EUR bank borrowings	EUR151	0.52% ~ 1.00%	EUR150	0.52%
HKD bank borrowings	–	–	HKD6,070	HIBOR + 0.70% ~ 0.80%
RMB bank borrowings	RMB300	5.70%	RMB14,829	4.18% ~ 5.70%

The long-term bank borrowings are repayable as follows:

	As at 31 December	
	2020 RMB'Million	2019 RMB'Million
Within 1 year	784	5,667
Between 1 and 2 years	4,409	18,449
Between 2 and 5 years	107,735	85,808
Over 5 years	1	–
	112,929	109,924

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

	31 December 2020		31 December 2019	
	Amount (Million)	Interest rate (per annum)	Amount (Million)	Interest rate (per annum)
USD bank borrowings	USD1,400	LIBOR + 0.45% ~ 0.50%	USD950	LIBOR + 0.5%
HKD bank borrowings	HKD171	HIBOR + 0.90% ~ 3.90%	HKD10,395	HIBOR + 0.45% ~ 0.50%
RMB bank borrowings	RMB4,179	3.55% ~ 5.22%	RMB1,103	3.60% ~ 5.22%

During the year ended 31 December 2020, the Group 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 2020 have been detailed in Note 38.

As at 31 December 2020, the carrying amounts of borrowings approximated their fair values.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36 NOTES PAYABLE

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	<u>122,057</u>	<u>83,327</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	–	7,672
Current portion of long-term HKD notes payable	–	<u>2,862</u>
	–	<u>10,534</u>
	<u>122,057</u>	<u>93,861</u>

The aggregate principal amounts of USD notes payable were USD18,800 million (31 December 2019: USD13,100 million and HKD3,200 million). Applicable interest rates are at 1.375% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910% (2019: rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910%) per annum.

During the year ended 31 December 2020, 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 2020 are detailed in Note 38.

The notes payable are repayable as follows:

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Within 1 year	–	10,534
Between 2 and 5 years	30,572	24,335
More than 5 years	<u>91,485</u>	<u>58,992</u>
	<u>122,057</u>	<u>93,861</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36 NOTES PAYABLE (continued)

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

In May 2020, 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 June 2020, the Company issued four tranches of senior notes under the Programme with an aggregate principal amount of USD6 billion from 5.5 years to 40 years, with interest rate ranging from 1.810% to 3.290%.

In September 2020, TME issued two tranches of senior notes with an aggregate principal amount of USD800 million from 5 years to 10 years, with interest rate ranging from 1.375% to 2.000%.

During the year ended 31 December 2020, the notes payable with an aggregate principal amount of USD1,100 million issued in February 2015, an aggregate principal amount of HKD2,000 million issued in May 2014 and an aggregate principal amount of HKD1,200 million issued in October 2014 reached their maturity and were repaid in full by the Group.

As at 31 December 2020, the fair value of the notes payable amounted to RMB132,037 million (31 December 2019: RMB98,668 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.

37 LONG-TERM PAYABLES

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Payables relating to media contents and running royalty fee for online games	7,290	1,281
Cash-settled share-based compensation payables (Note 34(d))	1,018	980
Purchase consideration payables for investee companies	104	298
Others	1,498	1,018
	<u>9,910</u>	<u>3,577</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

38 OTHER FINANCIAL LIABILITIES

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Measured at amortised cost:		
Redemption liability (Note (a))	9,512	8,703
Measured at fair value:		
Contingent consideration	3,308	1,873
Interest rate swap (Note (b))	1,937	494
Others	64	29
	14,821	11,099
Included in:		
Non-current liabilities	9,254	5,242
Current liabilities	5,567	5,857
	14,821	11,099

Note:

- (a) It comprised redemption liability arising from put option arrangements with non-controlling shareholders of acquired subsidiaries of approximately RMB9,512 million (31 December 2019: RMB8,703 million).
- (b) The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts were USD15,058 million (equivalent to approximately RMB98,252 million) (31 December 2019: USD4,025 million and HKD1,500 million (equivalent to approximately RMB29,423 million)).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

39 ACCOUNTS PAYABLE

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

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
0 ~ 30 days	82,916	67,054
31 ~ 60 days	2,196	2,975
61 ~ 90 days	665	1,442
Over 90 days	8,253	9,219
	94,030	80,690

40 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
Staff costs and welfare accruals	25,541	20,110
Selling and marketing expense accruals	7,015	4,772
General and administrative expenses accruals	2,750	1,932
Purchase consideration payables for investee companies	2,548	1,979
Interests payable	1,119	1,245
Prepayments received from customers and others	894	1,536
Purchase of land use rights and construction related costs	844	5,622
Others (Note)	13,597	7,978
	54,308	45,174

Note:

Others primarily consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

41 BUSINESS COMBINATION

(a) Step-up acquisition of HUYA

On 3 April 2020 (the “Acquisition Date of HUYA”), the Group exercised its call option to acquire additional 16,523,819 Class B ordinary shares in an associate, HUYA for an aggregate purchase price of approximately USD262.6 million (equivalent to approximately RMB1,860 million) in cash from JOYY Inc.. HUYA is a leading game live streaming platform in China. After the transaction, the Group increased its voting power in HUYA to 50.9% and equity interests in HUYA to 36.9% on an outstanding basis, and the Group considers it having sufficient power to control HUYA. As a result, HUYA was accounted for as a subsidiary of the Group upon the completion of the transaction (“Step-up Acquisition”). The equity interest held under investment in an associate was accounted for a deemed disposal at its fair value and resulted in step up gains of approximately RMB2,189 million.

For the non-controlling interest in HUYA, the Group elected to recognise the non-controlling interests that are present ownership interests measured at its proportionate share of the acquired identifiable net assets, and other components of non-controlling interests measured at the acquisition-date fair value. Goodwill of approximately RMB5,272 million was recognised as a result of the Step-up Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from integration of the operations with the Group. None of the goodwill is expected to be deductible for income tax purpose.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

41 BUSINESS COMBINATION (continued)

(a) Step-up acquisition of HUYA (continued)

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

	As at 3 April 2020 RMB'Million
Total consideration:	
Cash paid	1,860
Fair value of the previously held interests	7,260
	<u>9,120</u>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Intangible assets	3,864
Term deposits and others	10,060
Prepayments, deposits and other assets	534
Cash and cash equivalents	659
Other assets	335
Deferred income tax liabilities	(574)
Deferred revenue	(862)
Accounts payable	(1,088)
Other payables and accruals	(442)
Other liabilities	(187)
	<u>12,299</u>
Total identifiable net assets:	
Non-controlling interests	(8,451)
Goodwill	5,272
	<u>9,120</u>

Note:

The Group's revenue for the year would be increased by not more than 5% and results for the year would not be materially different should the Step-up Acquisition have occurred on 1 January 2020.

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

41 BUSINESS COMBINATION (continued)

(b) Privatisation of Bitauto Holdings Limited (“Bitauto”)

On 4 November 2020 (the “Acquisition Date of Bitauto”), a consortium (the “Bitauto Consortium”) led by the Group and another investor entered into an agreement to acquire 100% equity interests of Bitauto, an existing FVPL of the Group and the shares of which were listed on the New York Stock Exchange (NYSE: BITA), at a total consideration of USD1,154 million (equivalent to approximately RMB7,589 million) in a going private transaction. After the closing of the transaction, the Group became interested in 68.2% equity interests of Bitauto on an outstanding basis, and the Group considers it having sufficient power to control Bitauto. As a result, Bitauto was accounted for as a subsidiary of the Group upon the closing of the transaction and ceased to be a publicly traded company.

Goodwill of approximately RMB814 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 Group chose to record the non-controlling equity interests in Bitauto Consortium at fair value on Acquisition Date of Bitauto.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

41 BUSINESS COMBINATION (continued)

(b) Privatisation of Bitauto Holdings Limited (“Bitauto”) (continued)

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

	As at 4 November 2020 RMB'Million
Total consideration:	
Cash consideration	5,745
Fair value of the previously held interests and rollover shares	1,844
	<u>7,589</u>
Non-controlling interests	(2,415)
	<u>5,174</u>
Total consideration attributable to the Company's equity holders	<u>5,174</u>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Intangible assets	836
Investments in associates	5,186
Investments in joint ventures	812
Financial assets at fair value through profit or loss	880
Prepayments, deposits and other assets	4,095
Accounts receivable	1,324
Cash and cash equivalents	2,071
Deferred income tax liabilities	(204)
Deferred revenue	(1,955)
Accounts payable	(2,161)
Borrowings	(699)
Current income tax liabilities	(349)
Other liabilities	(2,854)
	<u>6,982</u>
Total identifiable net assets:	6,982
Non-controlling interests	(2,622)
Goodwill	814
	<u>5,174</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

41 BUSINESS COMBINATION (continued)

(b) Privatisation of Bitauto Holdings Limited (“Bitauto”) (continued)

Note:

The Group’s revenue for the year would be increased by not more than 5% and results for the year would not be materially different should the transaction have occurred on 1 January 2020.

The related transaction costs of the transaction are not material to the Group’s consolidated financial statements.

(c) Privatisation of Leyou Technologies Holdings Limited (“Leyou”)

On 21 December 2020 (Cayman Islands time), the Group entered into an exclusivity agreement with Leyou, a company listed on the Stock Exchange (Ticker: HK.1089) to acquire 100% equity interests of Leyou, at a total consideration of HKD10,695 million (equivalent to approximately RMB9,076 million) in a going private transaction. As a result, Leyou was accounted for as a wholly-owned subsidiary of the Group upon completion of the transaction and ceased to be a publicly traded company.

Goodwill of approximately RMB6,045 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 Group chose to record the non-controlling equity interests in Leyou at fair value on the acquisition date of Leyou.

The Group’s revenue for the year would be increased by not more than 5% and results for the year would not be materially different should the transaction have occurred on 1 January 2020.

The related transaction costs of the transaction are not material to the Group’s consolidated financial statements.

(d) Other business combinations

During the year ended 31 December 2020, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions were approximately RMB6,718 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB2,141 million, RMB1,326 million and RMB5,903 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 2020.

The related transaction costs of these business combinations are not material to the Group’s consolidated financial statements.



Notes to the Consolidated Financial Statements

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42 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash inflow from operating activities:

	2020 RMB'Million	2019 RMB'Million
Profit for the year	160,125	95,888
Adjustments for:		
Income tax expense	19,897	13,512
Net gains on disposals and deemed disposals of investee companies	(24,390)	(8,492)
Dividend income	(1,765)	(1,014)
Depreciation of property, plant and equipment, investment properties and right-of-use assets	21,458	15,623
Amortisation of intangible assets and land use rights	29,316	29,050
Net gains on disposals of intangible assets and property, plant and equipment	(120)	(85)
Interest income	(6,957)	(6,314)
Interest expense	7,449	7,690
Equity-settled share-based compensation expenses	12,634	10,127
Share of (profit)/loss of associates and joint ventures	(3,672)	1,681
Impairment provision for investments in associates and joint ventures	6,642	3,823
Net fair value gains on FVPL and other financial instruments	(38,909)	(11,158)
Impairment of intangible assets	4,872	234
Exchange losses/(gains)	438	(77)
Changes in working capital:		
Accounts receivable	(7,530)	(6,037)
Inventories	(95)	(394)
Prepayments, deposits and other receivables	117	(3,953)
Accounts payable	13,033	6,445
Other payables and accruals	2,828	7,022
Other tax liabilities	886	193
Deferred revenue	18,184	12,054
Cash generated from operating activities	<u>214,441</u>	<u>165,818</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

42 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Major non-cash transactions

There were no material non-cash transactions during the year ended 31 December 2020.

(c) Net cash/(debt) reconciliation

This section sets out an analysis of net cash/(debt) and the movements in net cash/(debt) for each of the years presented.

Net cash/(debt)	As at 31 December	
	2020 RMB'Million	2019 RMB'Million
Cash and cash equivalents	152,798	132,991
Term deposits and others	106,709	72,270
Borrowings – repayable within one year	(14,242)	(22,695)
Borrowings – repayable after one year	(112,145)	(104,257)
Notes payable – repayable within one year	–	(10,534)
Notes payable – repayable after one year	(122,057)	(83,327)
Net cash/(debt)	11,063	(15,552)



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42 CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Net cash/(debt) 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 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	–	12,715	(1,271)	427	(2)	(59)	11,810
Net cash as at							
31 December 2020	<u>152,798</u>	<u>106,709</u>	<u>(14,242)</u>	<u>(112,145)</u>	<u>–</u>	<u>(122,057)</u>	<u>11,063</u>
Net debt as at							
1 January 2019	97,814	69,305	(26,834)	(87,437)	(13,720)	(51,298)	(12,170)
Cash flows	34,092	(1,007)	16,092	(12,316)	13,465	(40,202)	10,124
Exchange impacts	1,085	49	(247)	(918)	(128)	(1,923)	(2,082)
Other non-cash movements	–	3,923	(11,706)	(3,586)	(10,151)	10,096	(11,424)
Net debt as at							
31 December 2019	<u>132,991</u>	<u>72,270</u>	<u>(22,695)</u>	<u>(104,257)</u>	<u>(10,534)</u>	<u>(83,327)</u>	<u>(15,552)</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

43 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2020 and 2019 are analysed as follows:

	As at 31 December	
	2020 RMB'Million	2019 RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	3,541	4,180
Purchase of other property, plant and equipment	391	331
Capital investment in investees	21,656	18,206
	<u>25,588</u>	<u>22,717</u>

(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	
	2020 RMB'Million	2019 RMB'Million
Contracted:		
Not later than one year	11,443	12,405
Later than one year and not later than five years	9,847	17,647
Later than five years	4,199	3,323
	<u>25,489</u>	<u>33,375</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

44 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 34 (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.

(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 2020, revenue recognised in connection with these services provided to associates and joint ventures of RMB11,554 million, RMB25,885 million and RMB2,629 million were recorded in the consolidated income statement, respectively (2019: RMB6,189 million, RMB21,838 million and RMB2,016 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 2020, the amounts relating to these contents and services received from associates were RMB8,266 million, RMB5,285 million, RMB3,058 million and RMB1,489 million, respectively (2019: RMB4,620 million, RMB4,801 million, RMB1,174 million and RMB1,183 million, respectively).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

44 RELATED PARTY TRANSACTIONS (continued)

(b) Year end balances with related parties

As at 31 December 2020, trade receivables and other receivables from related parties were RMB9,840 million and RMB67 million, respectively (31 December 2019: RMB8,723 million and RMB89 million, respectively).

As at 31 December 2020, trade payables and other payables to related parties were RMB3,719 million and RMB333 million, respectively (31 December 2019: RMB3,466 million and RMB284 million, respectively).

During the year ended 31 December 2020, the Group had undertaken transactions relating to the provision of various services such as FinTech services, business services and online advertising to certain associates, 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 2020, contract liabilities relating to support to be offered to certain associates and joint ventures were RMB5,469 million (31 December 2019: RMB3,636 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 2020 and 2019, and no other material balances with related parties as at 31 December 2020 and 2019.

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2020	2019
	RMB'Million	RMB'Million
ASSETS		
Non-current assets		
Intangible assets	37	44
Investments in subsidiaries	157,481	76,024
Investments in associates	76	–
Contribution to Share Scheme Trust	81	9
	157,675	76,077
Current assets		
Amounts due from subsidiaries	26,565	74,605
Prepayments, deposits and other receivables	312	7
Cash and cash equivalents	80	52
	26,957	74,664
Total assets	184,632	150,741



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) Financial position of the Company (continued)

	As at 31 December	
	2020 RMB'Million	2019 RMB'Million
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	–	–
Share premium	48,793	35,271
Shares held for share award schemes	(4,412)	(4,002)
Other reserves (b)	(1,114)	171
Retained earnings (b)	2,685	2,729
Total equity	45,952	34,169
LIABILITIES		
Non-current liabilities		
Notes payable	116,883	83,327
Other financial liabilities	236	701
	117,119	84,028
Current liabilities		
Amounts due to subsidiaries	20,481	18,773
Other payables and accruals	1,080	3,237
Notes payable	–	10,534
	21,561	32,544
Total liabilities	138,680	116,572
Total equity and liabilities	184,632	150,741



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

45 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 2020	2,729	171
Profit for the year	10,405	–
Dividends	(10,449)	–
Currency translation differences	–	(1,285)
	<u>2,685</u>	<u>(1,114)</u>
At 31 December 2020	2,685	(1,114)
At 1 January 2019	5,443	(179)
Profit for the year	5,591	–
Dividends	(8,305)	–
Currency translation differences	–	350
	<u>2,729</u>	<u>171</u>
At 31 December 2019	2,729	171

46 SUBSEQUENT EVENTS

On 29 January 2021, the UMG Consortium led by the Group has completed the acquisition of an additional 10% equity interests in UMG from its parent company, Vivendi S.A., based on the same enterprise value of EUR30 billion for 100% of UMG's share capital as in the initial 10% acquisition that closed in March 2020. The UMG Consortium comprises the same members as those for the initial 10% investment in UMG, including TME and other financial investors. Upon the closing of the transaction, the UMG Consortium's equity ownership in UMG has increased to 20%. The investment in the UMG Consortium has still been accounted for as an associate by the Group.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2020:

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47 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 Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares in the PRC
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
Morespark Limited	Established in Hong Kong, limited liability company	HKD1,000	100%	Investment holding and provision of online advertisement services in Hong Kong
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	USD1,306	100%	Development and operation of online games in the United States
China Literature Limited	Established in the Cayman Islands, limited liability company	USD101,578	57.57%*	Provision of online literature services in the PRC



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47 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
TME	Established in the Cayman Islands, limited liability company	USD277,999	49.06%*	Provision of online music entertainment services in the PRC
Supercell Oy	Established in Finland, limited liability company	EUR2,500	70.03%	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

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) 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.
- (c) 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 further does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Note: (continued)

(d) Significant restrictions

As at 31 December 2020, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB146,762 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.

(e) Consolidation of structured entities

As mentioned in Note (a) above and Note 34(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 34(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 2020, the Company contributed approximately RMB1,865 million (2019: RMB1,186 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.



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
“2019 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date III, as amended
“2021 AGM”	the annual general meeting of the Company to be held on 20 May 2021 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
“AMD EPYC processor”	an AMD-designed x86-64 microprocessor under the brand EPYC
“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
“Cyber Tianjin”	Tencent Cyber (Tianjin) Company Limited
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“Eligible Person(s)”	any person(s) eligible to participate in the respective Share Award Schemes



Term	Definition
“EPS”	earnings per share
“ESG Reporting Guide”	the environmental, social and governance reporting guide as set out in Appendix 27 to the Listing Rules
“EUR”	the lawful currency of the European Union
“FinTech”	financial technology
“FPO”	Follow-on Public Offering
“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., 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



Definition

Term	Definition
“IAS”	International Accounting Standards
“IC”	internal control department of the Company
“IFRS”	International Financial Reporting Standards
“IM”	Instant Messaging
“Investment Committee”	the investment committee of the Company
“IP”	intellectual property
“IPO”	initial public offering
“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
“MIH TC”	MIH TC Holdings Limited
“MMORPG”	massive multiplayer online role playing game
“MOBA”	Multiplayer Online Battle Arena
“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



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



Definition

Term	Definition
“Selected Participant(s)”	any Eligible Person(s) selected by the Board to participate in the 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 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
“Shenzhen Tencent Information”	Shenzhen Tencent Information Technology Company Limited
“Shenzhen Tencent Network”	Shenzhen Tencent Network Information 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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland



Term	Definition
“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
“Tencent Computer”	Shenzhen Tencent Computer Systems Company 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, 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
“TPV”	Total Payment Volume
“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



Definition

Term	Definition
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Schemes
“United States”	the United States of America
“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 and Guian New Area Tencent Cyber



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