



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2022 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	925 209 171
Organisasjonsform:	Europeisk selskap
Foretaksnavn:	FUNCOM SE
Forretningsadresse:	Kirkegata 15 0153 OSLO

Regnskapsår

Årsregnskapets periode:	01.01.2022 - 31.12.2022

Konsern

Morselskap i konsern:	Ja
Konsernregnskap lagt ved:	Ja

Regnskapsregler

Regler for små foretak benyttet:	Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet:	Regnskapslovens alminnelige regler
Benyttet ved utarbeidelsen av årsregnskapet til konsernet:	-

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Stian Skirstad Drageset
Dato for fastsettelse av årsregnskapet:	11.07.2023

Grunnlag for avgivelse

År 2022: Årsregnskapet er elektronisk innlevert
År 2021: Tall er hentet fra elektronisk innlevert årsregnskap fra 2022

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 18.08.2024



Resultatregnskap

Beløp i: USD	Note	2022	2021
RESULTATREGNSKAP			
Kostnader			
Personnel expenses	2	0	0
Other operating expenses	3	149 000	197 000
Sum kostnader		149 000	197 000
Driftsresultat		-149 000	-197 000
Finansinntekter og finanskostnader			
Financial income	4	3 093 000	819 000
Sum finansinntekter		3 093 000	819 000
Finance expenses	5	1 746 000	473 000
Sum finanskostnader		1 746 000	473 000
Netto finans		1 347 000	346 000
Ordinært resultat før skattekostnad		1 198 000	149 000
Taxes	6	336 000	
Ordinært resultat etter skattekostnad		862 000	149 000
Årsresultat		862 000	149 000



Balanse

Beløp i: USD	Note	2022	2021
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Utsatt skattefordel	6	0	0
Sum immaterielle eiendeler		0	0
Finansielle anleggsmidler			
Shares in subsidiaries	7	43 556 000	39 036 000
Receivables from group companies	8	56 980 000	29 940 000
Sum finansielle anleggsmidler		100 536 000	68 976 000
Sum anleggsmidler		100 536 000	68 976 000
Omløpsmidler			
Varer			
Fordringer			
Prepayments and other receivables		30 000	39 000
Sum fordringer		30 000	39 000
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	9	446 000	4 226 000
Sum bankinnskudd, kontanter og lignende		446 000	4 226 000
Sum omløpsmidler		476 000	4 265 000
SUM EIENDELER		101 012 000	73 241 000
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Share capital	10	19 190 000	19 190 000
Share premium	11	188 887 000	188 887 000
Sum innskutt egenkapital		208 077 000	208 077 000



Balanse

Beløp i: USD	Note	2022	2021
Opptjent egenkapital			
Other paid-in equity	11	15 739 000	13 597 000
Retained earnings	11	-178 704 000	-179 567 000
Sum opptjent egenkapital		-162 965 000	-165 970 000
Sum egenkapital		45 112 000	42 107 000
Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Interest-bearing long-term debt	12	54 000 000	30 000 000
Liabilities to subsidiaries	13	146 000	146 000
Other long-term liabilities	14	640 000	687 000
Sum annen langsiktig gjeld		54 786 000	30 833 000
Sum langsiktig gjeld		54 786 000	30 833 000
Kortsiktig gjeld			
Leverandørgjeld		22 000	17 000
Other payables	15	1 092 000	284 000
Sum kortsiktig gjeld		1 114 000	301 000
Sum gjeld		55 900 000	31 134 000
SUM EGENKAPITAL OG GJELD		101 012 000	73 241 000



Brønnøysundregistrene

ÅRSREGNSKAP FOR REGNSKAPSÅRET 2022 - GENERELL INFORMASJON

Journalnummer: 2023 681345

Enheten

Organisasjonsnummer: 925 209 171
Organisasjonsform: Europeisk selskap
Foretaksnavn: FUNCOM SE
Forretningsadresse: Kirkegata 15
0153 OSLO

Regnskapsår

Årsregnskapets periode: 01.01.2022 - 31.12.2022

Konsern

Morselskap i konsern: Ja
Konsernregnskap lagt ved: Ja

Regnskapsregler

Regler for små foretak benyttet: Nei
Benyttet ved utarbeidelsen av
årsregnskapet til selskapet: Regnskapslovens alminnelige regler
Benyttet ved utarbeidelsen av
årsregnskapet til konsernet: -

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Stian Skirstad Drageset
Dato for fastsettelse av årsregnskapet: 11.07.2023

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Brønnøysundregistrene, 16.08.2023



Organisasjonsnr: 925 209 171
FUNCOM SE

RESULTATREGNSKAP

Beløp i: USD	Note	2022	2021
RESULTATREGNSKAP			
Kostnader			
Personnel expenses	2	0	0
Other operating expenses	3	149 000	197 000
Sum kostnader		149 000	197 000
Driftsresultat		-149 000	-197 000
Finansinntekter og finanskostnader			
Financial income	4	3 093 000	819 000
Sum finansinntekter		3 093 000	819 000
Finance expenses	5	1 746 000	473 000
Sum finanskostnader		1 746 000	473 000
Netto finans		1 347 000	346 000
Ordinært resultat før skattekostnad		1 198 000	149 000
Taxes	6	336 000	
Ordinært resultat etter skattekostnad		862 000	149 000
Årsresultat		862 000	149 000



Organisasjonsnr: 925 209 171
FUNCOM SE

BALANSE

Beløp i: USD	Note	2022	2021

BALANSE - EIENDELER

Anleggsmidler

Immaterielle eiendeler

Utsatt skattefordel	6	0	0
Sum immaterielle eiendeler		0	0

Finansielle anleggsmidler

Shares in subsidiaries	7	43 556 000	39 036 000
Receivables from group companies	8	56 980 000	29 940 000
Sum finansielle anleggsmidler		100 536 000	68 976 000

Sum anleggsmidler

100 536 000 68 976 000

Omløpsmidler

Varer

Fordringer

Prepayments and other receivables		30 000	39 000
Sum fordringer		30 000	39 000

Bankinnskudd, kontanter og lignende

Cash and cash equivalents	9	446 000	4 226 000
Sum bankinnskudd, kontanter og lignende		446 000	4 226 000

Sum omløpsmidler

476 000 4 265 000

SUM EIENDELER

101 012 000 73 241 000

BALANSE - EGENKAPITAL OG GJELD

Egenkapital

Innskutt egenkapital

Share capital	10	19 190 000	19 190 000
Share premium	11	188 887 000	188 887 000
Sum innskutt egenkapital		208 077 000	208 077 000

Opptjent egenkapital

Other paid-in equity	11	15 739 000	13 597 000
Retained earnings	11	-178 704 000	-179 567 000
Sum opptjent egenkapital		-162 965 000	-165 970 000

Sum egenkapital

45 112 000 42 107 000



Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Interest-bearing long-term debt	12	54 000 000	30 000 000
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Sum gjeld		55 900 000	31 134 000
SUM EGENKAPITAL OG GJELD		101 012 000	73 241 000



Organisasjonsnr: 925 209 171
FUNCOM SE

NOTEOPPLYSNINGER - SELSKAP - alle poster oppgitt i hele tall

Note
2

Antall årsverk i regnskapsåret
0.00

Sum	Beløp

Balanseført verdi 31.12.	Varige driftsmidler	Immaterielle eiend.

Konsernregnskap

Morselskapet sitt navn

Forretningskontor for morselskapet

Begrunnelse for at datterselskap er utelatt fra konsolideringen

Samlet beløp - tilknyttet selskap	Årets	Fjorårets

Samlet beløp - foretak i samme konsern	Årets	Fjorårets

Samlet beløp - foretak i samme konsern	Årets	Fjorårets

Samlet beløp - felles kontrollert virksomhet	Årets	Fjorårets

Pantstillelse	Beløp

Beholdning av egne aksjer	Antall	Pålydende	Andel av aksjek.



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Funcom SE

Annual Report 2022



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Contents

Funcom SE Financial Statements:

Income Statement	3
Statement of Financial Position	4
Statement of Cash flows	5
Notes to the Financial Statements	6



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Funcom SE Financial Statement

Income Statement

for the year ended 31 December

<i>In thousands of US dollars</i>	Note	2022	2021
Personnel expenses	2	–	–
Other operating expenses	3	-149	-197
Operating expenses		-149	-197
Operating result		-149	-197
Financial income	4	3 093	819
Financial expenses	5	-1 746	-473
Result before taxes		1 199	149
Taxes	6	336	–
Net profit for the year		862	149

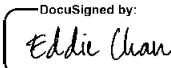


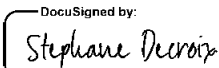
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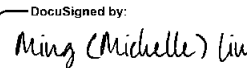
Statement of Financial Position as at 31 December

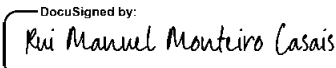
<i>In thousands of US dollars</i>	Note	2022	2021
Deferred tax assets	6	—	—
Shares in subsidiaries	7	43 556	39 036
Loans to subsidiaries	8	56 979	29 940
Total non-current assets		100 536	68 976
Prepayments and other receivables		30	39
Cash and cash equivalents	9	446	4 226
Total current assets		476	4 265
Total assets		101 012	73 241
Share capital	10	19 190	19 190
Share premium	11	188 887	188 887
Other paid-in equity	11	15 739	13 597
Retained earnings	11	-178 704	-179 566
Total equity	11	45 111	42 107
Interest-bearing long-term debt	12	54 000	30 000
Liabilities to subsidiaries	13	146	146
Other long-term liabilities	14	640	687
Total non-current liabilities		54 787	30 833
Trade payables		22	17
Other payables	15	1 092	284
Total current liabilities		1 114	301
Total equity and liabilities		101 012	73 241

Oslo, 29 June 2023
The Board of Directors of Funcom SE

DocuSigned by:

B925C4E3C5ED4DA
Eddie Tak Ho Chan
Chairman

DocuSigned by:

AFB9F679993A6BA
Stephane Jean Pierre Decroix
Board member

DocuSigned by:

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Ming Liu
Board member

DocuSigned by:

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Rui Manuel Monteiro Casais
CEO



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Statement of Cash flows for the year ended 31 December

<i>In thousands of US dollars</i>	Note	2022	2021
Cash flows from operating activities			
Profit (loss) before income tax		1 199	149
Adjustments for:			
Interest income/expense	4, 5	-1 359	-414
Effect of exchange rate fluctuations	4, 5	12	68
Working capital adjustments:			
Change in trade payables		5	3
Change in other current assets and liabilities		-116	-485
Cash generated from operations		-260	-678
Interest received	4	2 546	731
Interest paid	5	-300	-
Income tax paid	6	-	-
Net cash from operating activities (A)		1 986	53
Cash flows from investing activities			
Acquisitions of and capital increase in subsidiaries	7	-1 185	-1 600
Net increase in loans to subsidiaries	8	-28 569	-25 266
Net cash used in investing activities (B)		-29 754	-26 866
Cash flows from financing activities			
Net proceeds from issue of share capital	11	-	-
Proceeds from borrowings	12	24 000	30 000
Net cash from financing activities (C)		24 000	30 000
Net increase in cash and cash equivalents (A+B+C)		-3 768	3 186
Cash and cash equivalents at beginning of period	9	4 226	1 129
Effect of exchange rate fluctuations		-12	-89
Cash and cash equivalents at end of period	9	446	4 226



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Notes to the Financial Statements

1. Accounting principles

Funcom SE (or the "Company") is a European limited-liability company (Societas Europaea) registered in Norway. The Company's head office is in Kirkegata 15, 0153 Oslo, Norway. The Company is a subsidiary of the Tencent Group, and Tencent Holding Limited is the Ultimate Parent Company of the Group.

The financial statements are presented in accordance with the Norwegian Accounting Act and Norwegian general accepted accounting principles (NGAAP). The financial Statements are presented in USD which also is the functional currency for the Company.

Going concern

The accounts have been prepared on a going concern basis.

Rounding

All amounts are in thousands of US dollars unless stated otherwise. There may be some minor rounding differences, or the total may deviate from the total of the individual amounts. This is due to the rounding to whole thousands of individual amounts.

Classification

An asset or liability is classified as current when it is part of a normal operating cycle, held primarily for trading purposes, falls due within 12 months or when it consists of cash or cash equivalents on the statement of financial position date. Other items are classified as non-current.

Leases

Leases are classified as either finance leases or operating leases. Leases that transfer substantially all the risks and rewards incidental to the asset are classified as finance leases. Other leases are classified as operating leases. All the of the Company's leases and subleases are operational. Lease payments related to operating leases are recognized as expenses over the lease term.

Shares in subsidiaries

Shares in subsidiaries are recognized according to the cost method and are yearly tested for impairment indicators.

Loans

All loans are recognized at cost price. That means that they are recognized at the current rate of value of amounts received. Costs relating to raising new loans are expensed over the term of the loan.

Trade debtors

Trade debtors are recognized in the balance sheet after provision for bad debts. The bad debts provision is made on basis of an individual assessment of each debtor and an additional provision is made for other debtors to cover expected losses. Significant financial problems at the customers, the likelihood that the customer will become bankrupt or experience financial restructuring and postponements and insufficient payments, are considered indicators that the debtors should be written down.

Foreign currency

Monetary foreign currency items are valued at the exchange rate on the balance sheet date. Transactions concerning foreign currency are valued at the exchange rate on the date of the transaction.



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Receivables

Receivables from customers and other receivables are entered at par value after deducting a provision for expected losses. The provision for losses is made on the basis of an individual assessment of the respective receivables.

Group contributions

Group contributions represent an increase in the parent's investment in the subsidiary and may impact the carrying value of the subsidiary's shares. Group contributions from a parent company to its subsidiary will be recognized as an increase in the parent's investment in the subsidiary. If the subsidiary has negative equity at the time of receiving the group contribution, the parent company will assess the need for impairment of the investment. The impairment assessment will consider factors such as the recoverable amount of the subsidiary's assets, the ability of the subsidiary to generate future cash flows, and any potential risks or uncertainties associated with the subsidiary's operations.

Tax

The tax charge in the profit and loss account consists of tax payable for the period and the change in deferred tax. Deferred tax is calculated at the tax rate at 22% on the basis of tax-reducing and tax-increasing temporary differences that exist between accounting and tax values, and the tax loss carried forward at the end of the accounting year. Tax-increasing and tax-reducing temporary differences that reverse or may reverse in the same period are set off and entered net.

Cash Flow

The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and cash on hand.



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2. Personnel expenses

There were no employees in Funcom SE in 2022 or 2021.

3. Other operating expenses

<i>In thousands of US dollars</i>		2021
Audit fees		48
Legal services		78
Consulting fees		27
Other		44
Total other operating expenses		197

Auditor's remunerations

<i>In thousands of US dollars</i>		2021
Statutory audit		48
Other audit services		–
Tax advisory services		–
Other non-audit services		–
Total		48

4. Financial income

<i>In thousands of US dollars</i>		2021
Intercompany interest income		731
Interest income		–
Foreign exchange gain		87
Finance income		819



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5. Financial expenses

<i>In thousands of US dollars</i>		2021
Interest expense, related parties		281
Foreign exchange loss		155
Other interest expense		36
Finance expenses		473

A total of USD 300 thousand interest expense to related parties was paid out in 2022, including USD 281 thousand from 2021. The remaining USD 1 090 thousand are presented as Other payable on the balance sheet.

Other interest expense is related to the interest on deferred considerations from the acquisition of Sunhammer AB.

6. Taxes

<i>In thousands of US dollars</i>		2021
Net temporary differences		–
Tax losses carried forward		97
Basis for deferred tax		97

Deferred tax 22%		21
Deferred tax benefit not shown in the balance sheet		-21
Deferred tax reflected in the balance sheet		–

<i>In thousands of US dollars</i>		2021
Result before taxes		149
Permanent differences		91
Change in temporary differences		–
Currency exchange difference ⁽¹⁾		125
Basis for income tax		365
Realised brought forward tax losses		-365
Basis for payable taxes in the income statement		–
Calculated tax based on 22%		–
Total tax expense for the year		–

(1) The currency exchange difference occurs as a result of the annual accounts and tax papers being filed in different currencies.

<i>In thousands of US dollars</i>		2021
Payable tax on this year's result		–
Payable tax on provided Group contribution		–
Total payable tax in the balance		–



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7. Shares in subsidiaries

Shares in subsidiaries directly owned by Funcom SE:

Subsidiaries	Location	Ownership interest	
			2021
Funcom Inc.	Durham, United States		100 %
Nephilim LLC	Durham, United States		100 %
Funcom Oslo AS	Oslo, Norway		100 %
Funcom Games Beijing Ltd	Beijing, China		100 %
Zona Paradoxal, Lda	Lisboa, Portugal		100 %
Funcom Games Bucharest S.R.L.	Bucharest, Romania		100 %
Sunhammer AB	Stockholm, Sweden		85 %

The proportion of ownership interests held by Funcom SE equals the proportion of the voting rights. Investments in subsidiaries are booked according to the cost method.

Subsidiaries	Net profit		Equity		Book value	
		2021		2021		2021
Funcom Inc.		-318		4 746		1 244
Nephilim LLC		–		-59		1
Funcom Oslo AS		-912		32 795		33 824
Funcom Games Beijing Ltd		-2		180		400
Zona Paradoxal, Lda		39		183		1 259
Funcom Games Bucharest S.R.L.		-332		-299		18
Sunhammer AB		-109		117		2 290
Balance at 31.12		-1 634		37 663		39 036

Funcom SE has provided a group contribution to a subsidiary, it represents an increase in the capital invested in the subsidiary. From an accounting perspective, group contributions are treated as capital injections equivalent to a formal increase in share capital. The payable intercompany group contribution will be netted against loans to the subsidiary.

In thousands of US dollars		Credit
Investment in subsidiary		–
Payable intercompany group contribution		1 529
Tax effect of group contribution		–
SUM		1 529

8. Loans to subsidiaries

In thousands of US dollars		2021
Funcom Oslo AS		27 866
Funcom Inc.		57
Funcom Games Bucharest S.R.L.		879
Zona Paradoxal, Lda		1 137
Sunhammer AB		–
Balance at 31.12		29 940



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9. Cash and cash equivalents

<i>In thousands of US dollars</i>		2021
Non-restricted cash at bank and in hand		4 226
Restricted cash		–
Total cash and cash equivalents		4 226

10. Share capital

<i>Number of shares</i>		2021
Outstanding as at 1 January		81 346 154
Issues against payment in cash		–
Outstanding as at 31 December		81 346 154
Nominal value of the share-capital at December 31 (EUR)		16 269 231

The share capital of Funcom SE is EUR 16 269 231.80 divided into 81 346 154 ordinary shares, each with a nominal value of EUR 0.20. The share capital is translated into US dollars using historic rates. All issued shares are fully paid, and Funcom does not hold any of Funcom SE's own shares.

The shares in Funcom SE are held in a nominee account in Goldman Sachs International where the ultimate owner of is Tencent Holding Limited. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

The Company has been granted the right not to prepare consolidated financial statements from financial year 2022. The Company is a subsidiary of the Tencent Group, and Tencent Holding Limited is the Ultimate Parent Company of the Group. The Funcom SE consolidated financial statements are not included based on Accounting Act § 3-7. The consolidated financial statements prepared by the ultimate mother company, Tencent Holdings Limited, are available on their website Tencent.com.

11. Shareholders' equity

<i>In thousands of US dollars</i>	Share capital	Share premium	Other paid-in equity	Accumulated losses	Total equity
Equity as at January 1, 2021:	19 190	188 887	12 911	-179 716	41 272
Profit or loss for the period				149	149
Share-based payments expense (RSU)			686		686
Equity as at December 31, 2021:	19 190	188 887	13 597	-179 566	42 107
Equity as at January 1, 2022:	19 190	188 887	13 597	-179 566	42 107
Profit or loss for the period				862	862
Share-based payments expense (RSU)			2 142		2 142
Equity as at December 31, 2022:	19 190	188 887	15 739	-178 704	45 111



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12. Interest-bearing loan

In March 2022 the Company signed a new loan facility with a credit facility up to USD 34 million. In April 2022 the Company received a loan of USD 14 million, and in August 2022 the Company increased this loan by USD 10 million to a total of USD 24 million.

<i>In thousands of US dollars</i>	Interest rate	Maturity date		2021
Loan facility 1 (USD)	2,00 %	December, 2024		30 000
Loan facility 2 (USD)	3,50 %	March, 2025		–
Balance at 31.12				30 000

13. Liabilities to group companies

<i>In thousands of US dollars</i>		2021
Funcom Games Beijing Ltd		146
Balance at 31.12		146

14. Other long-term liabilities

<i>In thousands of US dollars</i>		2021
Deferred consideration		687
Balance at 31.12		687

The deferred consideration represents the Company's obligation to transfer additional consideration to the former owners of Sunhammer AB as part of the exchange for control of the subsidiary if specified future conditions are met.

15. Other payable

<i>In thousands of US dollars</i>		2021
Accrued interest to related parties		281
Other		3
Balance at 31.12		284



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16. Remuneration of the members of the Board

Funcom SE has not remunerated board members with board remuneration in 2022 or 2021. No loans have been granted to the board members or other executives.

17. Transactions with related parties

Remuneration to members of the Board is disclosed in note 16, and balance with subsidiaries are disclosed in note 8 and 13.

Funcom SE CEO, Rui Casais, is compensated in Funcom Oslo AS. His compensation for year 2022 and 2021 is disclosed below.

<i>In thousands of US dollars</i>	Salary	Bonus	SBC¹	Pension	Other	Total
Rui Casais 2022	281	103	133	5	1	523
Rui Casais 2021	260	105	112	7	–	484

SBC¹ (Share Based Compensation) consists of a Restricted Stock Unit (RSU) program for stocks in Tencent Holdings Limited.

Transactions with owner

Funcom SE has business agreements with other companies in the Group. The pricing of all transactions with Group companies are based on the arm's length principle.

<i>In thousands of US dollars</i>	Interest expense from related parties	2021	Amount owed to related parties	2021
Proxima Beta Europe B.V.		281		30 281

18. Events after the reporting date

In March 2023 the Company received a new USD 10 million loan. On 22 May 2023, the Company secured a USD 90 million loan facility. On 31 May 2023 a drawdown of USD 20 million was made. The proceeds of the loans will be used to fund further growth of the Funcom Group in general, and the further development of the eagerly anticipated open-world survival game Dune: Awakening.



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Annual Board of Directors Report - Funcom SE - 2022

The company's activities and operations

The company's business is to invest in subsidiaries who develop, promote, operate, and sell video games as well as related activities. The Company is based in Oslo, Norway, and is the parent company of the Funcom Group. The company does not have any operational activities.

Financial Summary for the Company

Operating income

There was no operating income in Funcom SE for 2022 or 2021.

Operating expenses

Operating expenses for 2022 were USD 149 000 (2021: USD 197 000).

Operating profit/loss

The Company generated an operating loss of USD 149 000 (2021: USD 197 000).

Financial items

Net financial income amounted to USD 1 347 000 (2021: USD 346 000).

Operating result

The operating result before tax was USD 1 199 000 (2021: USD 149 000). Tax on ordinary result was USD 336 000 (2021: USD 0). Net profit for the year was USD 862 000 (2021: USD 149 000).

Cash flow

The cash flow from operating activities was USD 1 986 000 (2021: USD 53 000). Cash flow from investment activities was USD -29 754 000 (2021: USD -26 866 000) and cash flow from financing activities was USD 24 000 000 (2021: USD 30 000 000). Cash and cash equivalents at year end 2022 were USD 446 000 (2021: USD 4 226 000).

Financing and debt

The Company's equity was USD 45 111 000 at the end of 2022 (2021: USD 42 107 000). The Company had total long-term liabilities of USD 1 114 000 at the end of 2022 (2021: USD 301 000).

Risk factors

The Company's overall performance is dependent on the revenues from subsidiaries, which come from existing and future games. In particular the much anticipated open-world survival game 'Dune Awakening', which is the focus of current investments in the subsidiaries. Liquidity risk arises due to strong growth of the Group and investments in games. These are funded by operating revenues in subsidiaries and supported by Tencent Group, one of the world's largest companies in terms of market capitalization. Currency risk is managed by the management of the Company and cash balance in relevant currencies are kept as a natural hedge against cost, to reduce significant currency risk. The Company does not use derivative instruments to manage its financial risk.

The Company has entered a liability insurance policy to cover members of the board. The liability insurance covers all subsidiaries.



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Going concern

The accounts have been prepared on a going concern basis.

The Company's key funding sources are the cash balance, revenues from subsidiaries, future pipeline, and a strong shareholder funding growth. Based on future cash flow projections estimated by the Funcom Group and the financially strong ultimate owner, Tencent Holdings Limited, one of the largest companies in the world in terms of market cap, there is no reason to believe that the Company will not be a going concern going forward.

Research and development

There have not been any research and development activities in 2022 in the Company.

Working environment and equal opportunities

There are no employees in the Company. There is one woman on the board as of 31 December 2022.

Environmental report

The company's activities do not pollute the environment.

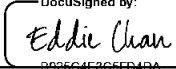
Transparency Act

Information regarding the Company's work with the Transparency Act can be found on Funcom's official webpage.

Events after the balance sheet date

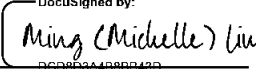
There are no significant events after the balance sheet date that have an effect on the Company's business.

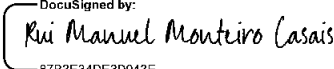
Oslo, 29 June 2023

DocuSigned by:

Eddie Tak Ho Chan
Chairman

DocuSigned by:

Stephane Jean Pierre Decroix
Board member

DocuSigned by:

Ming Liu
Board member

DocuSigned by:

Rui Manuel Monteiro Casais
CEO



To the General Meeting of Funcom SE

Independent Auditor's Report

Opinion

We have audited the financial statements of Funcom SE (the Company), which comprise the balance sheet as at 31 December 2022, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable statutory requirements, and
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

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 Financial Statements* section of our report. We are independent of the Company as required by relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report otherwise appears to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable statutory requirements.

Responsibilities of Management for the Financial Statements

PricewaterhouseCoopers AS, Dronning Eufemias gate 71, Postboks 748 Sentrum, NO-0106 Oslo
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap



Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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. 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to: <https://revisorforeningen.no/revisjonsberetninger>

Oslo, 30 June 2023

PricewaterhouseCoopers AS

Eivind Nilsen
State Authorised Public Accountant
(This document is signed electronically)



Revisjonsberetning

Signers:

Name	Method	Date
Nilsen, Eivind	BANKID	2023-07-03 10:44

This document package contains:

- Closing page (this page)
- The original document(s)
- The electronic signatures. These are not visible in the document, but are electronically integrated.



This file is sealed with a digital signature.
The seal is a guarantee for the authenticity
of the document.



Vår dato
17.10.2022

Din/Deres dato
28.09.2022

Saksbehandler
Lars Waaltorp

800 80 000
Skatteetaten.no

Din/Deres referanse
AR508550392

Telefon
90833418

Org.nr
974761076

Vår referanse
2022/5821649

Postadresse
Postboks 9200 Grønland
0134 OSLO

FUNCOM SE
Kirkegata 15
0153 OSLO

Att. Alexander Voldsund

Fritak for konsernregnskapsplikt for Funcom SE, org.nr. 925 209 171

Vi viser til deres brev av 28. september 2022 hvor dere søker om fritak fra plikten til å utarbeide konsernregnskap for Funcom SE.

Skattekontoret finner med hjemmel i regnskapsloven § 3-7 fjerde ledd å kunne gi tillatelse til at det gjøres unntak for konsernregnskapsplikten for Funcom SE. Dispensasjonen gjelder så lenge opplysningene som danner grunnlaget for vedtaket ikke endres vesentlig.

Kopi av dette brev må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet mv. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Bakgrunn

Funcom SE er morselskap i et underkonsern, hvor Tencent Holdings Limited er det ultimate morselskapet og er hjemmehørende i Caymanøyene. Konsernregnskap utarbeides av Tencent Holdings Limited på engelsk språk etter IFRS, hvor Funcom SE med datterselskaper er omfattet.

Skattekontorets vurdering

Det forutsettes at Tencent Holdings Limited utarbeider konsernregnskap som omfatter den regnskapspliktige og dennes datterselskaper. Det legges til grunn at dette konsernregnskapet er utarbeidet i samsvar med IFRS og at kravene i regnskapsloven § 3-7 med forskrifter for øvrig følges. Bestemmelsene i regnskapsloven kapittel 8 gjelder tilsvarende for dette konsernregnskapet.

Når det gjelder hvilket språk morselskapet skal utarbeide konsernregnskapet på, vises det til forskrift av 7. september 2006 nr. 1062 til utfylling og gjennomføring mv. av regnskapsloven. Det følger av § 3-7-1 at konsernregnskapet foruten å være på norsk, kan være på svensk, dansk eller engelsk.

Skattekontoret gir etter en konkret helhetsvurdering tillatelse til at det gjøres unntak for konsernregnskapsplikten.



Vennligst oppgi vår referanse ved henvendelse i saken.

Med hilsen

Lars Waalorp
seniorrådgiver
Brukerdialog, brukerkontakt
Skatteetaten

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer.



Skatteetaten

Vår dato
04.05.2021

Din/Deres dato
18.03.2021

Saksbehandler
Lars Waaltorp

800 80 000
Skatteetaten.no

Din/Deres referanse
AR421070099

Telefon
90833418

Org.nr
974761076

Vår referanse
2021/5523803

Postadresse
Postboks 9200 Grønland
0134 OSLO

FUNCOM SE
Kirkegata 15
0153 OSLO

Att. Markus Huseby Enge

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk for Funcom SE, org.nr. 925 209 171

Vi viser til deres henvendelse sendt inn 18. mars 2021 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk for Funcom SE.

Skattekontoret gir på bakgrunn av en konkret helhetsvurdering Funcom SE dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk, jf. regnskapsloven § 3-4 tredje ledd. Dispensasjonen gjelder så lenge opplysningene som danner grunnlaget for vedtaket ikke endres vesentlig.

Kopi av dette brevet må sendes til Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Den regnskapspliktige må selv dokumentere ved dette brev at tillatelse er gitt.

Bakgrunn

Funcom SE er registrert som et europeisk selskap (Societas Europaea), hvor endelig eier er et utenlandsk selskap som er en del av et internasjonalt konsern. Konsernets arbeidsspråk er engelsk. Funcomgruppen utvikler og selger dataspill, og selskapets kunder, leverandører og de fleste andre brukere er i all hovedsak utenfor Norges grenser. Styrelederen og styremedlemmene i selskapet er utenlandske.

Skattekontorets vurdering

Etter regnskapsloven § 3-4 tredje ledd skal "årsregnskapet og årsberetningen [...] være på norsk. Departementet kan ved [...] enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap mv., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i



samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til "informative regnskaper for ulike grupper av regnskapsbrukere". Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter skattekontorets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Det er særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har skattekontoret lagt særlig vekt på at selskapets endelige eier er et utenlandsk selskap som er en del av et internasjonalt konsern. Videre er det vektlagt at selskapet driver virksomhet i en bransje der alle sentrale aktører behersker og benytter engelsk.

Vennligst oppgi vår referanse ved henvendelse i saken.

Med hilsen

Lars Waalorp
seniorrådgiver
Brukerdialog, brukerkontakt
Skatteetaten

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer.



Tencent 腾讯

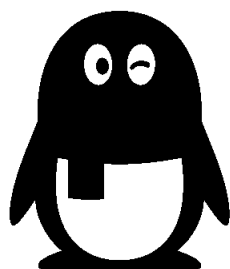
Tencent Holdings Limited

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)



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2022
Annual Report



CONTENTS

2	CORPORATE INFORMATION
3	FINANCIAL SUMMARY
4	CHAIRMAN'S STATEMENT
9	MANAGEMENT DISCUSSION AND ANALYSIS
30	DIRECTORS' REPORT
89	CORPORATE GOVERNANCE REPORT
122	INDEPENDENT AUDITOR'S REPORT
131	CONSOLIDATED INCOME STATEMENT
132	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
133	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
136	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
140	CONSOLIDATED STATEMENT OF CASH FLOWS
142	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
276	DEFINITION





Corporate Information

DIRECTORS

Executive Directors

Ma Huateng (*Chairman*)
Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Ian Charles Stone
Yang Siu Shun
Ke Yang
Zhang Xiulan
(appointed with effect from
18 August 2022)

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle (*Chairman*)
Ian Charles Stone
Yang Siu Shun
Ke Yang
Zhang Xiulan
(appointed with effect from
18 August 2022)

INVESTMENT COMMITTEE

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

NOMINATION COMMITTEE

Ma Huateng (*Chairman*)
Li Dong Sheng
Ian Charles Stone
Yang Siu Shun
Charles St Leger Searle

REMUNERATION COMMITTEE

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
and Registered Public Interest
Entity Auditor

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



Tencent Holdings Limited



Financial Summary

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2018 RMB'Million	2019 RMB'Million	2020 RMB'Million	2021 RMB'Million	2022 RMB'Million
Revenues	312,694	377,289	482,064	560,118	554,552
Gross profit	142,120	167,533	221,532	245,944	238,746
Profit before income tax	94,466	109,400	180,022	248,062	210,225
Profit for the year	79,984	95,888	160,125	227,810	188,709
Profit attributable to equity holders of the Company	78,719	93,310	159,847	224,822	188,243
Total comprehensive income for the year	67,760	119,901	281,173	200,390	59,564
Total comprehensive income attributable to equity holders of the Company	66,339	116,670	277,834	200,323	60,699
Non-IFRS operating profit	92,481	114,601	149,404	159,539	153,538
Non-IFRS profit attributable to equity holders of the Company	77,469	94,351	122,742	123,788	115,649

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2018 RMB'Million	2019 RMB'Million	2020 RMB'Million	2021 RMB'Million	2022 RMB'Million
Assets					
Non-current assets	506,441	700,018	1,015,778	1,127,552	1,012,142
Current assets	217,080	253,968	317,647	484,812	565,989
Total assets	723,521	953,986	1,333,425	1,612,364	1,578,131
Equity and liabilities					
Equity attributable to equity holders of the Company	323,510	432,706	703,984	806,299	721,391
Non-controlling interests	32,697	56,118	74,059	70,394	61,469
Total equity	356,207	488,824	778,043	876,693	782,860
Non-current liabilities	164,879	225,006	286,303	332,573	361,067
Current liabilities	202,435	240,156	269,079	403,098	434,204
Total liabilities	367,314	465,162	555,382	735,671	795,271
Total equity and liabilities	723,521	953,986	1,333,425	1,612,364	1,578,131

Annual Report 2022





Chairman's Statement

I am pleased to present our annual report for the year ended 31 December 2022 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2022 was RMB188,243 million, a decrease of 16% compared with the results for the previous year. Basic and diluted EPS for the year ended 31 December 2022 were RMB19.757 and RMB19.341, respectively.

The Group's non-IFRS profit attributable to equity holders of the Company for the year ended 31 December 2022 was RMB115,649 million, a decrease of 7% compared with the results for the previous year. Non-IFRS basic and diluted EPS for the year ended 31 December 2022 were RMB12.138 and RMB11.835, respectively.

OPERATING INFORMATION

	As at 31 December 2022	As at 31 December 2021	Year- on-year change	As at 30 September 2022	Quarter- on-quarter change
(in millions, unless specified)					
Combined MAU of Weixin and WeChat	1,313.2	1,268.2	3.5%	1,308.9	0.3%
Mobile device MAU of QQ	572.1	552.1	3.6%	574.4	-0.4%
Fee-based VAS registered subscriptions	233.8	236.3	-1.1%	228.7	2.2%

BUSINESS REVIEW AND OUTLOOK

Strategic Progress and Outlook

During 2022, we increased our business efficiency, sharpened our focus on core activities, and developed new services and revenue lines, better positioning us for a new sustainable growth model in the future. Below are some highlights from our key products and business lines during the reporting period:



Tencent Holdings Limited



Chairman's Statement

Communication and Social

Aggregate time spent on Weixin continued to increase throughout 2022, driven by growth in both chat and non-chat use cases. Among non-chat use cases, time spent on Moments was broadly stable year-on-year in the fourth quarter of 2022, while time spent on Mini Programs and Video Accounts doubled and tripled year-on-year respectively, each exceeding time spent on Moments. Mini Programs has become a leading transaction platform in China, generating several trillions renminbi of transaction value in 2022 and contributing to the development of the real economy. Video Accounts gained user mindshare in live events, with 190 million users watching the 2023 CCTV Spring Festival Gala via live streaming on Video Accounts.

For QQ, we enlivened the video chat experience by adding Super QQ Show avatars and utilising motion capture technology to mirror users' facial expressions and gestures in real time. We enriched the anime, comics and games content for Mini World, the short-video service within QQ, and launched AI-powered creation tools, increasing DAU and time spent per user significantly.

Digital Content

Our fee-based VAS subscriptions decreased 1% year-on-year to 234 million. Video subscriptions revenue increased as we adjusted pricing, though subscriptions decreased slightly to 119 million because of content scheduling delays. In January 2023, our self-commissioned drama series Three-Body became the highest-rated domestic science fiction series released in China in the past five years¹. For music, we offered attractive membership privileges and we enhanced user engagement in various music genres, driving growth in paying users and ARPU.

Domestic Games

In 2022, we significantly reduced Minor time spent through the implementation of our industry-leading Minor protection program. However, we have sustained our market leadership, with Honour of Kings resuming year-on-year growth in DAU in the fourth quarter of 2022 and achieving record-high gross receipts during the Chinese New Year holiday in 2023. In February 2023, we tapped into the Survival-Open World-Crafting game genre, through the release of our self-developed game Undawn.

International Games

The fourth quarter is a seasonally strong period for our international games business, which contributed 33% of our games revenue in the fourth quarter of 2022, compared to 28% in the fourth quarter of 2021². Despite the releases of several competing games, VALORANT's MAU and gross receipts grew year-on-year during the fourth quarter of 2022, as players responded favorably to its new agent and "best of 9" game mode. Call of Duty Mobile's gross receipts increased year-on-year in the fourth quarter of 2022, benefitting from its third anniversary promotions and World-Cup themed content. We released GODDESS OF VICTORY: NIKKE on mobile devices, and Warhammer 40,000: Darktide on PC, in the fourth quarter of 2022.

¹ Source: Douban, a leading review aggregation website in China; as of 21 March 2023

² Excluding Supercell's true-up revenue adjustment made in 4Q2021





Chairman's Statement

Online Advertising

We returned to year-on-year revenue growth in the fourth quarter of 2022 as we released more inventory on services including Video Accounts, and as advertiser demand improved. We strengthened the transaction-driven capability of our advertising ecosystem, with click-to-message and click-to-purchase advertisements accounting for over one-third of Weixin's advertising revenue in the fourth quarter of 2022. Our improved machine-learning infrastructure enhanced conversion rates and returns on investments for advertisers, while enabling us to achieve greater training efficiency.

FinTech

During the fourth quarter of 2022, our commercial payment business was temporarily impacted by COVID-19 outbreaks, resulting in a significant slowdown in volume growth. As consumption recovered in China, our daily average commercial payment volume rebounded to a double-digit year-on-year growth rate, quarter to date, in the first quarter of 2023, against a high base period in the first quarter of 2022. Our payment business benefitted from the vibrancy of the Mini Programs commerce ecosystem, which contributed a high-teens percentage of our commercial payment volume in the fourth quarter of 2022. We are expanding our wealth management user base through investor education, better services and a broadening product line. We are also exploring opportunities in consumer loans and online insurance services through closer collaboration with licensed financial institutions, under a new regulatory framework.

Cloud and Other Business Services

We further reduced loss-making activities and optimised costs, while focusing on healthier-margin self-developed PaaS solutions, such as video cloud and database. We are helping automakers to enhance their IT infrastructure and product offerings in areas such as customised smart cockpit solution, digital map and data management.

Technology Development

We are investing in our AI capabilities and cloud infrastructure to embrace foundation models, which we believe will enhance the experience of our existing products and services and allow us to explore introducing new products.



Tencent Holdings Limited



Chairman's Statement

Environment, Social and Governance ("ESG") Initiatives

We seek to create sustainable value for users, shareholders and the society, fulfilling our vision of "Value for Users, Tech for Good".

Environment

Based on our commitment to carbon neutrality, we have refined targets of our decarbonisation pathway, and set greenhouse emission absolute reduction targets which are aligned with the Paris Agreement. In December 2022, we published our Biodiversity Statement, outlining our commitment to developing businesses in an eco-friendly way, utilising technology to promote sustainable use and protection of natural resources, and harnessing Internet technologies to raise public awareness.

Social

To promote basic research, we pledged to provide RMB10 billion over the next ten years to support 200 to 300 outstanding scientists through the New Cornerstone Investigator Program. We upgraded our digital philanthropy platform. During our 99 Giving Day series of charitable events, we raised donations for more than 25,000 charitable projects and further deepened user engagement with the total number of participants exceeding 100 million. We recently published our Diversity, Equity, and Inclusion Statement, demonstrating our commitment to providing a congenial, creative and collaborative workplace.

Governance

We appointed Professor Zhang Xiulan to Tencent's Board in August 2022. She became our second female independent non-executive director ("INED"), enhancing our Board's areas of expertise and gender diversity. To further segregate the responsibilities of the Board and management team, Mr Martin Lau will rotate off the Board at the 2023 AGM, but will continue to contribute as the Company's President, and the Chairman of the Investment Committee. Upon Professor Zhang's appointment, and Mr Lau's rotation at the 2023 AGM, INED representation in our Board will increase from 50% to 63%, and female representation from 13% to 25%.





Chairman's Statement

DIVIDENDS

The Board has recommended the payment of a final dividend of HKD2.40 per Share (2021: HKD1.60 per Share) for the year ended 31 December 2022, subject to the approval of the shareholders at the 2023 AGM. Such proposed dividend is expected to be payable on 5 June 2023 to the shareholders whose names appear on the register of members of the Company on 24 May 2023.

On 16 November 2022, the Board resolved to declare a special interim dividend in the form of a distribution in specie of Class B ordinary shares of Meituan indirectly held by the Company to the shareholders whose names appeared on the register of members of the Company on 10 January 2023, in proportion to their then respective shareholdings in the Company on the basis of 1 Class B ordinary share of Meituan for every 10 Shares held by the shareholders, being rounded down to the nearest whole number of Class B ordinary shares of Meituan. Accordingly, approximately 948 million Class B ordinary shares of Meituan are expected to be distributed after deducting the Meituan Shares to be received as dividends in respect of the Shares held by the Share Scheme Trust and the Shares which have been repurchased but not yet cancelled by the Company as of 10 January 2023.

APPRECIATION

On behalf of the Board, I would like to express our sincere appreciation to all our staff and management team for their incredible dedication, integrity and commitment to the Group which enable us to strive through the ongoing challenges and deliver strong and sustainable performance. I would also like to express our heartfelt gratitude to all our shareholders and stakeholders for their unwavering support and trust.

We are confident that our solid commitment to innovation and excellence will ensure that we can continue to adhere to our belief in "Value for Users, Tech for Good" to create more value for our users, foster sustainable innovations and promote common prosperity initiatives.

Ma Huateng

Chairman

Hong Kong, 22 March 2023



Tencent Holdings Limited



Management Discussion and Analysis

YEAR ENDED 31 DECEMBER 2022 COMPARED TO YEAR ENDED 31 DECEMBER 2021

The following table sets forth the comparative figures for the years ended 31 December 2022 and 2021:

	Year ended 31 December	
	2022	2021
	(RMB in millions)	
Revenues	554,552	560,118
Cost of revenues	(315,806)	(314,174)
Gross profit	238,746	245,944
Interest income	8,592	6,650
Other gains/(losses), net	124,293	149,467
Selling and marketing expenses	(29,229)	(40,594)
General and administrative expenses	(106,696)	(89,847)
Operating profit	235,706	271,620
Finance costs, net	(9,352)	(7,114)
Share of profit/(loss) of associates and joint ventures, net	(16,129)	(16,444)
Profit before income tax	210,225	248,062
Income tax expense	(21,516)	(20,252)
Profit for the year	188,709	227,810
Attributable to:		
Equity holders of the Company	188,243	224,822
Non-controlling interests	466	2,988
	188,709	227,810
Non-IFRS operating profit	153,538	159,539
Non-IFRS profit attributable to equity holders of the Company	115,649	123,788





Management Discussion and Analysis

Revenues. Revenues decreased by 1% to RMB554.6 billion for the year ended 31 December 2022 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended 31 December 2022 and 2021:

	Year ended 31 December			
	2022		2021	
	Amount	% of total revenues	Amount	% of total revenues
(RMB in millions, unless specified)				
VAS	287,565	52%	291,572	52%
Online Advertising	82,729	15%	88,666	16%
FinTech and Business Services	177,064	32%	172,195	31%
Others	7,194	1%	7,685	1%
Total revenues	554,552	100%	560,118	100%

- Revenues from VAS³ decreased by 1% year-on-year to RMB287.6 billion for the year ended 31 December 2022. International Games revenues increased by 3% to RMB46.8 billion, or up 5% excluding currency impact and the Supercell-related true-up adjustment made in the fourth quarter of 2021. During the year, we saw a continued robust performance from VALORANT, and incremental revenues from successful launches of GODDESS OF VICTORY: NIKKE and V Rising, versus decreased revenue from PUBG MOBILE due to post-COVID normalisation. Domestic Games revenues decreased by 4% to RMB123.9 billion, as the industry experienced a digestion period from the implementation of Minor protection measures, as well as fewer new game releases. By title, we saw increased revenues from League of Legends: Wild Rift and Fight of The Golden Spatula, and new contributions from recently released Return to Empire and Arena Breakout, versus decreased revenues from certain existing titles such as Honour of Kings and Peacekeeper Elite. Social Networks revenues were RMB116.9 billion, broadly stable year-on-year, reflecting increased revenues from our Video Accounts live streaming service and music subscription service, versus decreased revenues from our music- and games-related live streaming services.

³ Mobile games VAS revenues (including mobile games revenues attributable to our Social Networks business) decreased by 3% year-on-year to RMB160.5 billion, while PC client games revenues grew by 4% year-on-year to RMB46.9 billion for the year ended 31 December 2022.



Tencent Holdings Limited



Management Discussion and Analysis

- Revenues from Online Advertising decreased by 7% year-on-year to RMB82.7 billion for the year ended 31 December 2022, with a revenue decline in the first half of the year followed by a recovery later in the year. Social and Others Advertising revenues decreased by 4% to RMB72 billion. While industry-wide ad sentiment was generally weak, we saw robust demand for Video Accounts in-feed ads, rapid growth of Mini Programs ads, and recovery of mobile ad network in the second half of the year. Media Advertising revenues decreased by 20% to RMB10.7 billion, reflecting lower advertising revenues from Tencent Video due to content scheduling delays, and from Tencent News amid the challenging macro environment.
- Revenues from FinTech and Business Services increased by 3% year-on-year to RMB177.1 billion for the year ended 31 December 2022. FinTech Services revenue growth was primarily driven by increasing payment volume, albeit impacted by COVID-19 outbreaks. Business Services revenues decreased year-on-year due to our proactive reduction of loss-making activities.

Cost of revenues. Cost of revenues increased by 1% year-on-year to RMB315.8 billion for the year ended 31 December 2022, reflecting tightened spending on channel and distribution costs and cloud project deployment costs, versus increased content costs as well as server and bandwidth costs including those associated with the growth of Video Accounts. As a percentage of revenues, cost of revenues increased to 57% for the year ended 31 December 2022 from 56% for the year ended 31 December 2021, reflecting the benefits from our cost rationalisation and efficiency improvement, offset by our investment in strategic initiatives, including Video Accounts. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2022 and 2021:

	Year ended 31 December			
	2022		2021	
	Amount	% of segment revenues	Amount	% of segment revenues
(RMB in millions, unless specified)				
VAS	141,918	49%	138,636	48%
Online Advertising	47,720	58%	48,072	54%
FinTech and Business Services	118,690	67%	120,799	70%
Others	7,478	104%	6,667	87%
Total cost of revenues	315,806		314,174	





Management Discussion and Analysis

- Cost of revenues for VAS increased by 2% year-on-year to RMB141.9 billion for the year ended 31 December 2022, reflecting an increase in server and bandwidth costs as well as higher content costs for games, versus decreased channel and distribution costs.
- Cost of revenues for Online Advertising decreased by 1% year-on-year to RMB47.7 billion for the year ended 31 December 2022, with increased server and bandwidth costs driven by the growth of Video Accounts, offset by decreased channel and distribution costs due to our efficiency improvement.
- Cost of revenues for FinTech and Business Services decreased by 2% year-on-year to RMB118.7 billion for the year ended 31 December 2022, with increased transaction costs driven by payment volume growth, offset by decreased cloud project deployment costs as we scaled back loss-making activities.

Other gains/(losses), net. We recorded net other gains of RMB124.3 billion for the year ended 31 December 2022, which were primarily non-IFRS adjustment items such as net gains on deemed disposals and disposals of certain investee companies (including a RMB106.6 billion deemed disposal gain associated with Meituan in the fourth quarter of 2022, and a RMB41.3 billion deemed disposal gain plus a RMB18.5 billion partial divestment gain associated with Sea Limited), partly offset by net fair value losses from revaluation of certain investee companies, and impairment provisions against certain investee companies in verticals such as Internet services and online entertainment.

Selling and marketing expenses. Selling and marketing expenses decreased by 28% year-on-year to RMB29.2 billion for the year ended 31 December 2022, reflecting tightened spending on marketing activities across our organisation, particularly for our digital content services, Business Services, games and utility products. As a percentage of revenues, selling and marketing expenses decreased to 5% for the year ended 31 December 2022 from 7% for the year ended 31 December 2021.

General and administrative expenses. General and administrative expenses increased by 19% to RMB106.7 billion for the year ended 31 December 2022 on a year-on-year basis, driven by increased R&D expenses and staff costs including those associated with our acquisitions and overseas subsidiaries. Our expense growth rate moderated following the implementation of our efficiency measures at the beginning of the year. As a percentage of revenues, general and administrative expenses increased to 19% for the year ended 31 December 2022 from 16% for the year ended 31 December 2021.



Tencent Holdings Limited



Management Discussion and Analysis

Finance costs, net. Net finance costs increased by 31% year-on-year to RMB9.4 billion for the year ended 31 December 2022, mainly driven by increased interest expenses.

Share of profit(loss) of associates and joint ventures, net. We recorded share of losses of associates and joint ventures of RMB16.1 billion for the year ended 31 December 2022, compared to share of losses of RMB16.4 billion for the year ended 31 December 2021. Non-IFRS share of profits of associates and joint ventures was RMB2.4 billion for the year ended 31 December 2022, compared to non-IFRS share of losses of RMB1 billion for the year ended 31 December 2021. The change reflected improved profitability at certain domestic associates as a result of their cost optimisation initiatives.

Income tax expense. Income tax expense increased by 6% year-on-year to RMB21.5 billion for the year ended 31 December 2022, reflecting increased withholding tax provision during the year.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 16% year-on-year to RMB188.2 billion for the year ended 31 December 2022. Non-IFRS profit attributable to equity holders of the Company decreased by 7% to RMB115.6 billion for the year ended 31 December 2022. While industry conditions were challenging in the first half of the year, we streamlined our cost structure, rationalised non-core businesses, and initiated new revenue-generating services, which enabled us to resume earnings growth in the second half of the year.





Management Discussion and Analysis

FOURTH QUARTER OF 2022 COMPARED TO FOURTH QUARTER OF 2021

The following table sets forth the comparative figures for the fourth quarter of 2022 and the fourth quarter of 2021:

	Unaudited	
	Three months ended	
	31 December 2022	31 December 2021
	(RMB in millions)	
Revenues	144,954	144,188
Cost of revenues	(83,132)	(86,371)
Gross profit	61,822	57,817
Interest income	2,582	1,703
Other gains/(losses), net	85,854	86,199
Selling and marketing expenses	(6,115)	(11,616)
General and administrative expenses	(27,314)	(24,380)
Operating profit	116,829	109,723
Finance costs, net	(3,658)	(1,863)
Share of profit/(loss) of associates and joint ventures, net	(1,692)	(8,267)
Profit before income tax	111,479	99,593
Income tax expense	(4,575)	(3,888)
Profit for the period	106,904	95,705
Attributable to:		
Equity holders of the Company	106,268	94,958
Non-controlling interests	636	747
	106,904	95,705
Non-IFRS operating profit	39,426	33,151
Non-IFRS profit attributable to equity holders of the Company	29,711	24,880



Tencent Holdings Limited



Management Discussion and Analysis

Revenues. Revenues increased by 1% year-on-year to RMB145 billion for the fourth quarter of 2022. The following table sets forth our revenues by line of business for the fourth quarter of 2022 and the fourth quarter of 2021:

	Unaudited			
	Three months ended			
	31 December 2022		31 December 2021	
	Amount	% of total revenues	Amount	% of total revenues
(RMB in millions, unless specified)				
VAS	70,417	49%	71,913	50%
Online Advertising	24,660	17%	21,518	15%
FinTech and Business Services	47,244	33%	47,958	33%
Others	2,633	1%	2,799	2%
Total revenues	144,954	100%	144,188	100%

- Revenues from VAS⁴ decreased by 2% to RMB70.4 billion for the fourth quarter of 2022 on a year-on-year basis. International Games revenues increased by 5% to RMB13.9 billion, or up 11% excluding currency impact and the Supercell-related true-up adjustment made in the fourth quarter of 2021. Revenue growth was driven by key franchises VALORANT and League of Legends, as well as successful launches of GODDESS OF VICTORY: NIKKE and Warhammer 40,000: Darktide. Domestic Games revenues decreased by 6% to RMB27.9 billion due to year-on-year lower gross cash receipts in the previous quarters. Social Networks revenues decreased by 2% to RMB28.6 billion, reflecting decreased revenues from music- and games-related live streaming services, versus increased revenues from the Video Accounts live streaming service and our music subscription service.
- Revenues from Online Advertising increased by 15% to RMB24.7 billion for the fourth quarter of 2022 on a year-on-year basis. Ad spend from eCommerce platforms, FMCG and games advertisers increased notably year-on-year. Social and Others Advertising revenues increased by 17% to RMB21.4 billion, underpinned by robust demand for Video Accounts and Mini Programs ads, as well as the recovery of our mobile ad network. Media Advertising revenues increased by 4% to RMB3.3 billion, reflecting increased monetisation for ad-supported music content.

⁴ Mobile games VAS revenues (including mobile games revenues attributable to our Social Networks business) decreased by 2% year-on-year to RMB39.2 billion, while PC client games revenues increased by 8% year-on-year to RMB11.5 billion, for the fourth quarter of 2022.





Management Discussion and Analysis

- Revenues from FinTech and Business Services decreased by 1% to RMB47.2 billion for the fourth quarter of 2022 on a year-on-year basis. FinTech Services revenue growth was slower than the previous quarter due to COVID-19 outbreaks temporarily suppressing payment activity. Business Services revenues decreased year-on-year as we scaled back loss-making activities.

Cost of revenues. Cost of revenues decreased by 4% to RMB83.1 billion for the fourth quarter of 2022 on a year-on-year basis, reflecting tightened spending on channel and distribution costs and cloud project deployment costs. As a percentage of revenues, cost of revenues decreased to 57% for the fourth quarter of 2022 from 60% for the fourth quarter of 2021, reflecting the benefits from our cost rationalisation and efficiency improvement. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2022 and the fourth quarter of 2021:

	Unaudited			
	Three months ended			
	31 December 2022		31 December 2021	
	Amount	% of segment revenues	Amount	% of segment revenues
(RMB in millions, unless specified)				
VAS	35,344	50%	36,869	51%
Online Advertising	13,748	56%	12,338	57%
FinTech and Business Services	31,386	66%	34,942	73%
Others	2,654	101%	2,222	79%
Total cost of revenues	83,132		86,371	

- Cost of revenues for VAS decreased by 4% year-on-year to RMB35.3 billion for the fourth quarter of 2022, due to decreased revenue sharing costs associated with our live streaming services as well as decreased channel and distribution costs.
- Cost of revenues for Online Advertising increased by 11% year-on-year to RMB13.7 billion for the fourth quarter of 2022, driven by increased content costs associated with online video and Mini Programs, as well as increased channel and distribution costs driven by the recovery of our mobile ad network.



Tencent Holdings Limited



Management Discussion and Analysis

- Cost of revenues for FinTech and Business Services decreased by 10% year-on-year to RMB31.4 billion for the fourth quarter of 2022, mainly due to lower cloud project deployment costs as we scaled back loss-making activities.

Other gains/(losses), net. We recorded net other gains of RMB85.8 billion for the fourth quarter of 2022, primarily attributable to a RMB106.6 billion gain from the deemed disposal of Meituan, partly offset by impairment provisions against certain investee companies in verticals such as Internet services and online entertainment.

Selling and marketing expenses. Selling and marketing expenses decreased by 47% to RMB6.1 billion for the fourth quarter of 2022 on a year-on-year basis, reflecting disciplined spending on marketing activities across our organisation. As a percentage of revenues, selling and marketing expenses decreased to 4% for the fourth quarter of 2022 from 8% for the fourth quarter of 2021.

General and administrative expenses. General and administrative expenses increased by 12% to RMB27.3 billion for the fourth quarter of 2022 on a year-on-year basis, reflecting increased R&D expenses and staff costs as we continued to invest in strategic areas in both domestic and international markets.

Finance costs, net. Net finance costs increased by 96% to RMB3.7 billion for the fourth quarter of 2022, reflecting foreign exchange losses recognised this quarter versus gains for the fourth quarter of 2021, and to a lesser extent increased interest expense due to greater indebtedness.

Share of profit/(loss) of associates and joint ventures, net. We recorded share of losses of associates and joint ventures of RMB1.6 billion for the fourth quarter of 2022, compared to share of losses of RMB8.3 billion for the fourth quarter of 2021. Non-IFRS share of profits of associates and joint ventures was RMB3.1 billion for the fourth quarter of 2022, compared to non-IFRS share of losses of RMB0.8 billion for the fourth quarter of 2021. The change mainly reflected improved profitability of certain domestic associates as a result of their cost optimisation initiatives.

Income tax expense. Income tax expense increased by 18% year-on-year to RMB4.6 billion for the fourth quarter of 2022, in line with higher profit and increased withholding tax provision.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 12% to RMB106.3 billion for the fourth quarter of 2022 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 19% to RMB29.7 billion for the fourth quarter of 2022, benefitting from our business rationalisation and cost efficiency measures, as well as associates' net contribution turning from losses to profits.





Management Discussion and Analysis

FOURTH QUARTER OF 2022 COMPARED TO THIRD QUARTER OF 2022

The following table sets forth the comparative figures for the fourth quarter of 2022 and the third quarter of 2022:

	Unaudited	
	Three months ended	
	31 December	30 September
	2022	2022
	(RMB in millions)	
Revenues	144,954	140,093
Cost of revenues	(83,132)	(78,110)
Gross profit	61,822	61,983
Interest income	2,582	2,328
Other gains/(losses), net	85,854	20,886
Selling and marketing expenses	(6,115)	(7,124)
General and administrative expenses	(27,314)	(26,480)
Operating profit	116,829	51,593
Finance costs, net	(3,658)	(1,950)
Share of profit/(loss) of associates and joint ventures, net	(1,692)	(3,697)
Profit before income tax	111,479	45,946
Income tax expense	(4,575)	(7,104)
Profit for the period	106,904	38,842
Attributable to:		
Equity holders of the Company	106,268	39,943
Non-controlling interests	636	(1,101)
	106,904	38,842
Non-IFRS operating profit	39,426	40,907
Non-IFRS profit attributable to equity holders of the Company	29,711	32,254



Tencent Holdings Limited



Management Discussion and Analysis

Revenues. Revenues increased by 3% to RMB145 billion for the fourth quarter of 2022 on a quarter-on-quarter basis.

- Revenues from VAS decreased by 3% to RMB70.4 billion. International Games revenues increased by 19% to RMB13.9 billion, driven by the successful launches of GODDESS OF VICTORY: NIKKE and Warhammer 40,000: Darktide, as well as increased revenues from VALORANT and Clash of Clans. Domestic Games revenues decreased by 11% to RMB27.9 billion reflecting seasonally lower revenue accruals in the fourth quarter. Social Networks revenues decreased by 4% to RMB28.6 billion mainly due to lower revenue accruals from in-game virtual item sales.
- Revenues from Online Advertising increased by 15% to RMB24.7 billion. Social and Others Advertising revenues increased by 13% to RMB21.4 billion, benefitting from the robust demand for Video Accounts in-feed ads as well as resumed growth from our mobile advertising network. Media Advertising revenues increased by 28% to RMB3.3 billion, benefitting from notably strong demand from eCommerce advertisers.
- Revenues from FinTech and Business Services increased by 5% to RMB47.2 billion, reflecting seasonally higher revenues from cloud services driven by year-end project deployments, partially offset by decreased revenues from payment services due to COVID-19 outbreaks.

Cost of revenues. Cost of revenues increased by 6% to RMB83.1 billion for the fourth quarter of 2022 on a quarter-on-quarter basis. We incurred increased content costs, cloud project deployment costs and bandwidth and server costs, versus decreased channel and distribution costs. As a percentage of revenues, cost of revenues increased to 57% for the fourth quarter of 2022 from 56% for the third quarter of 2022.

- Cost of revenues for VAS increased by 1% to RMB35.3 billion for the fourth quarter of 2022, reflecting increased content costs including those associated with seasonal eSports events, offset by decreased channel and distribution costs.
- Cost of revenues for Online Advertising increased by 19% to RMB13.7 billion for the fourth quarter of 2022, reflecting increased content costs related to online video as well as increased channel and distribution costs driven by our mobile ad network's resumed growth.
- Cost of revenues for FinTech and Business Services increased by 5% to RMB31.4 billion for the fourth quarter of 2022, mainly driven by costs associated with year-end cloud project deployments and increased bandwidth and server costs.





Management Discussion and Analysis

Selling and marketing expenses. Selling and marketing expenses decreased by 14% to RMB6.1 billion for the fourth quarter of 2022 on a quarter-on-quarter basis, reflecting disciplined spending on marketing activities across our organisation.

General and administrative expenses. General and administrative expenses slightly increased by 3% to RMB27.3 billion for the fourth quarter of 2022 on a quarter-on-quarter basis.

Share of profit/(loss) of associates and joint ventures, net. We recorded share of losses of associates and joint ventures of RMB1.6 billion for the fourth quarter of 2022, compared to share of losses of RMB3.7 billion for the third quarter of 2022. Non-IFRS share of profits of associates and joint ventures was RMB3.1 billion for the fourth quarter of 2022, compared to non-IFRS share of profits of RMB2.4 billion for the third quarter of 2022, reflecting sequentially improved profitability at certain domestic associates as a result of their cost optimisation initiatives.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 166% to RMB106.3 billion for the fourth quarter of 2022 on a quarter-on-quarter basis. Non-IFRS profit attributable to equity holders of the Company decreased by 8% to RMB29.7 billion for the fourth quarter of 2022, primarily due to adverse seasonability for certain of our higher margin business lines.



Tencent Holdings Limited



Management Discussion and Analysis

OTHER FINANCIAL INFORMATION

	Unaudited			Year ended	
	Three months ended				
	31 December	30 September	31 December	31 December	31 December
	2022	2022	2021	2022	2021
(RMB in millions, unless specified)					
EBITDA (a)	44,002	43,124	36,568	164,037	173,173
Adjusted EBITDA (a)	49,606	48,610	42,267	188,986	194,798
Adjusted EBITDA margin (b)	34%	35%	29%	34%	35%
Interest and related expenses	2,826	2,729	2,188	9,985	7,918
Net (debt)/cash (c)	(14,832)	(27,271)	(20,243)	(14,832)	(20,243)
Capital expenditures (d)	5,651	2,377	11,661	18,014	33,392

Note:

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





Management Discussion and Analysis

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

	Unaudited			Year ended	
	Three months ended				
	31 December	30 September	31 December	31 December	31 December
	2022	2022	2021	2022	2021
	(RMB in millions, unless specified)				
Operating profit	116,829	51,593	109,723	235,706	271,620
Adjustments:					
Interest income	(2,582)	(2,328)	(1,703)	(8,592)	(6,650)
Other (gains)/losses, net	(85,854)	(20,886)	(86,199)	(124,293)	(149,467)
Depreciation of property, plant and equipment and investment properties	5,160	5,289	5,466	21,724	21,517
Depreciation of right-of-use assets	1,718	1,693	1,376	6,720	4,649
Amortisation of intangible assets and land use rights	8,731	7,763	7,905	32,772	31,504
EBITDA	44,002	43,124	36,568	164,037	173,173
Equity-settled share-based compensation	5,604	5,486	5,699	24,949	21,625
Adjusted EBITDA	49,606	48,610	42,267	188,986	194,798



Tencent Holdings Limited



Management Discussion and Analysis

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 investment-related transactions. In addition, non-IFRS adjustments include relevant non-IFRS adjustments for the Group's major associates based on available published financials of the relevant major associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the fourth quarter of 2022 and 2021, the third quarter of 2022, as well as the years ended 31 December 2022 and 2021 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 31 December 2022									
	Adjustments								
As reported	Share-based compensation	Net (gains)/ losses from investee companies	Amortisation of intangible assets	Impairment provisions/ (reversals)	SSV & CPP	Others	Income tax effects	Non-IFRS	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)		
(RMB in millions, unless specified)									
Operating profit	116,829	5,680	(107,945)	1,241	22,007	1,600	14	–	39,426
Profit for the period	106,904	7,217	(107,955)	2,601	23,700	1,600	206	(3,717)	30,556
Profit attributable to equity holders	106,268	7,124	(107,928)	2,420	23,693	1,600	206	(3,672)	29,711
EPS (RMB per share)									
– basic	11.173								3.124
– diluted	10.977								3.042
Operating margin	81%								27%
Net margin	74%								21%





Management Discussion and Analysis

Unaudited three months ended 30 September 2022

	Adjustments								
	As reported	Share-based compensation	Net (gains)/ losses from investee companies	Amortisation of intangible assets	Impairment provisions/ (reversals)	SSV & CPP	Others	Income tax effects	Non-IFRS
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	
	(RMB in millions, unless specified)								
Operating profit	51,593	5,925	(32,341)	1,313	12,962	1,445	10	–	40,907
Profit for the period	38,842	8,020	(32,106)	3,065	13,283	1,445	1,738	(933)	33,354
Profit attributable to equity holders	39,943	7,818	(32,402)	2,836	11,617	1,445	1,738	(741)	32,254
EPS (RMB per share)									
– basic	4.187								3.381
– diluted	4.104								3.306
Operating margin	37%								29%
Net margin	28%								24%

Unaudited three months ended 31 December 2021

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



Tencent Holdings Limited



Management Discussion and Analysis

Year ended 31 December 2022

	Adjustments							
	As reported	Share-based compensation	Net (gains)/ losses from investee companies	Amortisation of intangible assets	Impairment provisions/ (reversals)	SSV & CPP	Others	Income tax effects
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	Non-IFRS
(RMB in millions, unless specified)								
Operating profit	235,706	26,248	(164,384)	5,197	44,803	5,763	205	–
Profit for the year	188,709	33,311	(164,698)	11,818	48,004	5,763	2,125	(5,839)
Profit attributable to equity holders	188,243	32,651	(164,840)	10,880	46,326	5,763	2,125	(5,499)
EPS (RMB per share)								
– basic	19,757							
– diluted	19,341							
Operating margin	43%							
Net margin	34%							

Year ended 31 December 2021

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





Management Discussion and Analysis

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 arising from acquisitions
- (d) Mainly including impairment provisions/(reversals) for associates, joint ventures, goodwill and other intangible assets arising from acquisitions
- (e) Mainly including donations and expenses incurred for the Group's SSV & CPP initiatives
- (f) Mainly including expenses incurred for non-recurring compliance-related costs and certain litigation settlements of the Group and/or arising from investee companies
- (g) Income tax effects of non-IFRS adjustments

INVESTMENTS HELD

As at 31 December 2022, our investment portfolio amounted to approximately RMB819,975 million (31 December 2021: RMB878,653 million) as recorded in the consolidated statement of financial position under various categories including:

- investments in associates and joint ventures which are accounted for by using equity method; and
- financial assets at fair value through profit or loss and through other comprehensive income (including assets held for distribution).

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

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

The fair value of our shareholdings⁵ in listed investee companies (excluding subsidiaries) amounted to RMB585,115 million as at 31 December 2022 (31 December 2021: RMB982,835 million).

⁵ Including those held via special purpose vehicles, on an attributable basis.



Tencent Holdings Limited



Management Discussion and Analysis

As at 31 December 2022, we held approximately 1,055 million shares in Meituan, a company operating a one-stop platform for food, transportation, travel, shopping and entertainment in China, representing approximately 17% of its total outstanding shares. The carrying value of this investment was approximately RMB164.6 billion, which accounted for approximately 10% of the Group's total assets as at 31 December 2022. This investment was initially accounted for as investment in an associate and was then transferred to and accounted for as financial assets at fair value through other comprehensive income on 16 November 2022, following the resignation of the Group's representative on the board of Meituan, Mr Lau Chi Ping Martin, as a director of Meituan ("Board Representative's Resignation"). The cost of our investment in Meituan was approximately RMB32.1 billion. During the year ended 31 December 2022, the Group did not receive any dividends from Meituan, and there was a deemed disposal gain of approximately RMB106.6 billion arising from the Board Representative's Resignation and unrealised gains of approximately RMB12.2 billion arising from changes in fair value under equity. The Group does not have nor does it exercise any managerial influence on Meituan after the Board Representative's Resignation and regards the investment in Meituan as a passive investment. Except Meituan, there was no other individual investment with a carrying value of 5% or more of the Group's total assets as at 31 December 2022.

On 16 November 2022, the Board resolved to declare the Distribution in Specie. The Meituan Shares to be distributed under the Distribution in Specie were classified and presented as "Assets held for distribution" in the consolidated statement of financial position of the Group as at 31 December 2022. The share certificates for the Meituan Shares to be distributed under the Distribution in Specie are dispatched to the qualifying shareholders in March 2023. The Group's equity interests in Meituan would be reduced to approximately 1.7%, following the completion of the Distribution in Specie. Please refer to the announcements of the Company dated 16 November 2022 and 24 March 2023 for further details in relation to the Distribution in Specie. Notwithstanding the Distribution in Specie, the Group and Meituan will continue to maintain their beneficial business relationship in the ordinary course of business including via their ongoing strategic partnership agreement.

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





Management Discussion and Analysis

Return from our investment portfolio amounted to RMB99,823 million for the year ended 31 December 2022, with a decrease of 17% compared to last year. Details of our return from investment portfolio are as follows:

Income of Principal Investment (Classified by nature of income)	2022 RMB'Million	2021 RMB'Million
Dividend income	948	660
Net gains on disposals and deemed disposals of investee companies	172,707	118,051
Net fair value (losses)/gains	(7,703)	47,717
Impairment provision for investee companies, goodwill and other intangible assets from acquisitions	(44,803)	(25,028)
Share of profit/(loss) of associates and joint ventures, net	(16,129)	(16,444)
Amortisation of intangible assets resulting from acquisitions	(5,197)	(4,651)

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

LIQUIDITY AND FINANCIAL RESOURCES

Our cash and debt positions as at 31 December 2022 and 30 September 2022 were as follows:

	Audited 31 December 2022 (RMB in millions)	Unaudited 30 September 2022
Cash and cash equivalents	156,739	160,177
Term deposits and others	162,792	155,436
	319,531	315,613
Borrowings	(175,248)	(180,703)
Notes payable	(159,115)	(162,181)
Net debt	(14,832)	(27,271)



Tencent Holdings Limited



Management Discussion and Analysis

As at 31 December 2022, the Group had net debt of RMB14.8 billion, compared to net debt of RMB27.3 billion as at 30 September 2022. The sequential improvement was mainly due to free cash flow generation, partly offset by cash outflow for repurchase of shares by the Company.

For the fourth quarter of 2022, the Group generated free cash flow of RMB23.1 billion. This was a result of net cash flow generated from operating activities of RMB35.6 billion, partly offset by payments for capital expenditures of RMB5.6 billion, payments for media content of RMB5.3 billion, and payments for lease liabilities of RMB1.6 billion.

As at 31 December 2022, bank balances and cash held at banks of the Group were mainly denominated in RMB. The Group considers that any reasonable changes in foreign exchange rates of currencies against major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currencies are considered to be not significant.

As at 31 December 2022, the Group's total debts comprised borrowings and notes payable. Particulars of the Group's borrowings and notes payable are set out in Note 36 and Note 37 to the consolidated financial statements respectively.

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

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

The Group had no material contingent liabilities outstanding as at 31 December 2022.





Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 132 of this annual report.

The Board has recommended the payment of a final dividend of HKD2.40 per Share for the year ended 31 December 2022. The dividend is expected to be payable on 5 June 2023 to the shareholders whose names appear on the register of members of the Company on 24 May 2023. The total final dividend proposed for the year is HKD2.40 per Share.

On 16 November 2022, the Board resolved to declare a special interim dividend in the form of a distribution in specie of Class B ordinary shares of Meituan indirectly held by the Company to the shareholders whose names appeared on the register of members of the Company on 10 January 2023, in proportion to their then respective shareholdings in the Company on the basis of 1 Class B ordinary share of Meituan for every 10 Shares held by the shareholders, being rounded down to the nearest whole number of Class B ordinary shares of Meituan. Accordingly, approximately 948 million Class B ordinary shares of Meituan are expected to be distributed after deducting Meituan Shares to be received as dividends in respect of the Shares held by the Share Scheme Trust and the Shares which have been repurchased but not yet cancelled by the Company as of 10 January 2023.

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 2022, the Company had distributable reserves amounting to RMB82,562 million (2021: RMB66,701 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 136 to 139, Note 33, Note 34 and Note 46 to the consolidated financial statements respectively.



Tencent Holdings Limited



Directors' Report

PROPERTY, PLANT AND EQUIPMENT

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

BUSINESS REVIEW AND DIVIDEND

A fair review of the business of the Group, comprising a discussion and analysis of the Group's performance during the year, an indication of likely future development in the business of the Group and the proposed dividend for the year ended 31 December 2022 are set out in the "Chairman's Statement" on pages 4 to 8 of this annual report. Particulars of important events affecting the Group that have occurred since the end of the financial year 2022 are set out in Note 47 to the consolidated financial statements. An analysis using financial key performance indicators is set out in the "Management Discussion and Analysis" on pages 9 to 29 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are set out in the standalone "Environmental, Social and Governance 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 standalone "Environmental, Social and Governance Report" and the "Corporate Governance Report" on pages 89 to 121 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 89 to 121 of this annual report.

SHARE CAPITAL

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

SUBSIDIARIES

Particulars of the Company's material subsidiaries as at 31 December 2022 are set out in Note 48 to the consolidated financial statements.

BORROWINGS AND NOTES PAYABLE

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





Directors' Report

DONATION

The donations made by the Group in the year were RMB5,124 million.

FINANCIAL SUMMARY

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

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

During the year ended 31 December 2022, the Company repurchased a total of 107,083,000 Shares on the Stock Exchange for an aggregate consideration of approximately HKD33.8 billion before expenses. The repurchased Shares were subsequently cancelled. The repurchase was effected for the enhancement of shareholder value in the long term. Details of the Shares repurchased are as follows:

Month of purchase in 2022	No. of Shares purchased	Purchase consideration per Share		Aggregate consideration paid HKD
		Highest	Lowest	
		price paid HKD	price paid HKD	
January	4,831,400	477.40	421.00	2,196,128,575
March	4,033,000	388.20	352.80	1,500,840,680
April	7,240,000	390.00	353.20	2,701,808,700
June	2,500,000	370.00	354.00	905,252,360
July	7,870,000	356.00	332.40	2,708,481,780
August	9,950,000	334.00	307.80	3,163,872,380
September	25,020,000	332.20	263.80	7,391,913,354
October	15,050,000	282.40	246.20	3,920,319,332
November	11,032,800	292.60	259.00	3,086,868,603
December	19,555,800	339.40	291.80	6,218,582,866
Total:	107,083,000			33,794,068,630

Save as disclosed above and in Note 33 to the consolidated financial statements, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.



Tencent Holdings Limited



Directors' Report

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

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

TME

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

As at 31 December 2022, 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 2022, China Literature had fully utilised all net proceeds from its IPO.

HUYA

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

As at 31 December 2022, HUYA had used all net proceeds from its IPO and USD73.4 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. The net proceeds were used and will be used in accordance with the intentions as set out in its FPO prospectus. HUYA currently expects to use up the remaining net proceeds before the end of 2027. The expected timeline and purposes for the use of proceeds are based on HUYA management's current outlook, and are subject to uncertainties as well as changes in circumstances.





Directors' Report

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. As at 31 December 2022, there were no outstanding share options exercisable under 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, the Board may, at its discretion, grant options to any qualifying participants to subscribe for Shares, subject to the terms and conditions stipulated therein.

As at 31 December 2022, there were a total of 20,965,853 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 2022	Exercise price HKD (Notes 3 and 4)	Exercise period
		As at 1 January 2022	Granted during the year	Exercised during the year	Waived during the year			
Lau Chi Ping Martin	21 March 2016	3,750,000	–	–	–	3,750,000	144.70	21 March 2017 to 20 March 2023 (Note 1)
	24 March 2017	5,250,000	–	–	–	5,250,000	210.04	24 March 2018 to 23 March 2024 (Note 1)
	9 April 2018	2,411,850	–	–	–	2,411,850	389.62	9 April 2019 to
		803,950	–	–	–	803,950	389.36	8 April 2025 (Note 1)
	4 April 2019	1,753,290	–	–	–	1,753,290	355.26	4 April 2020 to
		876,645	–	–	–	876,645	354.99	3 April 2026
		876,645	–	–	–	876,645	354.46	(Note 1)



Tencent Holdings Limited



Directors' Report

		Number of share options						
		As at 1 January 2022	Granted during the year	Exercised during the year	Waived during the year	As at 31 December 2022	Exercise price HKD (Notes 3 and 4)	Exercise period
Lau Chi Ping Martin	20 March 2020	1,099,953	–	–	–	1,099,953	340.50	20 March 2021 to
		1,099,954	–	–	–	1,099,954	340.31	19 March 2027
		1,099,954	–	–	–	1,099,954	339.51	(Note 1)
		1,099,954	–	–	–	1,099,954	338.82	
	30 March 2021	843,657	–	–	843,657	–	618.00	30 March 2022 to
		843,657	–	–	843,657	–	588.46	29 March 2028
		843,658	–	–	843,658	–	587.93	(Note 1)
		843,658	–	–	–	843,658	587.39	
	Total:	23,496,825	–	–	2,530,972	20,965,853		

Note:

- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options shall be vested and can be exercised 1 year after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.
- No options granted to the director were exercised, cancelled or lapsed, and a total of 2,530,972 options were voluntarily waived by the director during the year ended 31 December 2022.
- As a result of the distribution in specie of JD.com Shares, pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, adjustments had been made to the exercise prices of the share options which remained outstanding as at 20 January 2022 (JD.com ex-dividend date). The adjusted exercise prices of the share options are reflected above. Please refer to the announcement of the Company dated 14 March 2022 for details.
- As a result of the distribution in specie of Meituan Shares, pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, further adjustments had been made to the exercise prices of the share options as shown above which remained outstanding as at 5 January 2023 (Meituan ex-dividend date). The adjusted exercise prices of the share options had not been reflected above and were expected to be reflected during the year ending 31 December 2023. Please refer to the announcement of the Company dated 9 January 2023 for details.





Directors' Report

Details of movements of share options granted to Employee Participants * of the Group (apart from director(s) of the Company) during the year ended 31 December 2022 are as follows:

Date of grant	Number of share options				As at 31 December 2022	Exercise price HKD (Notes 16 and 17)	Exercise period/ Performance targets (Note 22)
	As at 1 January 2022	Granted during the year (Notes 14 and 15)	Exercised during the year (Note 13)	Lapsed/ forfeited during the year			
2 Apr 2015	180,000	–	180,000	–	–	149.80	2 Apr 2016 to 1 Apr 2022 (Note 3)
10 Jul 2015	296,451	–	274,275	22,176	–	135.50	10 Jul 2016 to 9 Jul 2022 (Note 3)
21 Mar 2016	5,215,000	–	5,047,500	–	167,500	144.70	21 Mar 2017 to 20 Mar 2023 (Note 3)
6 Jul 2016	132,280	–	132,280	–	–	174.86	6 Jul 2017 to 5 Jul 2023 (Note 3)
	444,861	–	128,020	–	316,841	161.46	
24 Mar 2017	826,650	–	–	–	826,650	210.04	24 Mar 2018 to 23 Mar 2024 (Note 1)
24 Mar 2017	19,050,875	–	100,000	–	18,950,875	210.04	24 Mar 2018 to 23 Mar 2024 (Note 3)
10 Jul 2017	4,469	–	–	–	4,469	256.06	10 Jul 2018 to 9 Jul 2024 (Note 2)
10 Jul 2017	239,864	–	239,864	–	–	272.36	10 Jul 2018 to 9 Jul 2024 (Note 3)
	4,458,222	–	548,680	80,811	3,828,731	256.06	
10 Jul 2017	6,336	–	2,048	–	4,288	256.08	10 Jul 2019 to 9 Jul 2024 (Note 4)
	7,150	–	2,042	–	5,108	256.06	
23 Nov 2017	71,190	–	–	–	71,190	399.83	23 Nov 2018 to 22 Nov 2024 (Note 2)
16 Jan 2018	132,050	–	–	34,135	97,915	423.29	16 Jan 2019 to 15 Jan 2025 (Note 2)
9 Apr 2018	1,873,075	–	–	1,575	1,871,500	389.62	9 Apr 2019 to 8 Apr 2025 (Note 1)
9 Apr 2018	191,555	–	–	–	191,555	389.62	9 Apr 2019 to 8 Apr 2025 (Note 2)
9 Apr 2018	12,439,239	–	–	–	12,439,239	389.62	9 Apr 2019 to 8 Apr 2025 (Note 3)
	4,180,520	–	–	–	4,180,520	389.36	
24 May 2018	26,390	–	–	–	26,390	387.06	24 May 2019 to 23 May 2025 (Note 2)



Tencent Holdings Limited



Directors' Report

Date of grant	Number of share options				As at 31 December 2022	Exercise price HKD (Notes 16 and 17)	Exercise period/ Performance targets (Note 22)
	As at 1 January 2022	Granted during the year (Notes 14 and 15)	Exercised during the year (Note 13)	Lapsed/ forfeited during the year			
22 Jun 2018	13,055	–	–	–	13,055	383.14	22 Jun 2019 to 21 Jun 2025 (Note 1)
22 Jun 2018	70,525	–	–	–	70,525	383.14	22 Jun 2019 to 21 Jun 2025 (Note 2)
6 Jul 2018	113,608	–	109,775	3,833	–	386.60	6 Jul 2019 to 5 Jul 2025 (Note 3)
	2,164,080	–	5,801	70,860	2,087,419	366.84	
	1,103,629	–	–	55,910	1,047,719	366.38	
6 Jul 2018	2,024	–	–	–	2,024	366.84	6 Jul 2020 to 5 Jul 2025 (Note 4)
	2,013	–	–	–	2,013	366.38	
	2,013	–	–	–	2,013	365.68	
6 Jul 2018	647	–	–	–	647	366.84	6 Jul 2021 to 5 Jul 2025 (Note 5)
	4,532	–	–	–	4,532	366.38	
	4,533	–	–	–	4,533	365.68	
	4,534	–	–	–	4,534	365.19	
24 Aug 2018	17,780	–	–	–	17,780	335.25	24 Aug 2019 to 23 Aug 2025 (Note 2)
24 Aug 2018	1,995	–	–	1,995	–	335.25	6 Jul 2019 to 23 Aug 2025 (Note 8)
	665	–	–	665	–	333.81	
4 Apr 2019	193,866	–	300	–	193,566	355.26	4 Apr 2020 to 3 Apr 2026 (Note 1)
4 Apr 2019	1,141,558	–	–	–	1,141,558	355.26	4 Apr 2020 to 3 Apr 2026 (Note 3)
	570,780	–	–	–	570,780	354.99	
	570,782	–	–	–	570,782	354.46	
4 Apr 2019	17,500,000	–	–	–	17,500,000	354.31	4 Apr 2024 to 3 Apr 2026 (Note 6)





Directors' Report

Date of grant	Number of share options				As at 31 December 2022	Exercise price HKD (Notes 16 and 17)	Exercise period/ Performance targets (Note 22)
	As at 1 January 2022	Granted during the year (Notes 14 and 15)	Exercised during the year (Note 13)	Lapsed/ forfeited during the year			
8 Jul 2019	44,614	–	32,136	12,478	–	359.04	8 Jul 2020 to 7 Jul 2026 (Note 3)
	714,173	–	1,146	2,131	710,896	339.90	
	492,350	–	–	2,250	490,100	339.46	
	489,089	–	–	2,250	486,839	338.69	
8 Jul 2019	3,000	–	–	–	3,000	339.90	8 Jul 2021 to 7 Jul 2026 (Note 4)
	3,001	–	–	–	3,001	339.46	
	3,001	–	–	–	3,001	338.69	
	3,003	–	–	–	3,003	338.03	
23 Aug 2019	9,870	–	–	–	9,870	315.52	15 Aug 2020 to 22 Aug 2026 (Note 10)
23 Aug 2019	16,949	–	–	16,949	–	315.95	15 Aug 2020 to 22 Aug 2026 (Note 8)
	16,949	–	–	16,949	–	315.52	
	16,949	–	–	16,949	–	314.78	
23 Aug 2019	99,731	–	–	7,262	92,469	315.95	15 Aug 2020 to 22 Aug 2026 (Note 7)
	53,498	–	–	7,263	46,235	315.52	
	53,499	–	–	7,263	46,236	314.78	
2 Dec 2019	82	–	–	–	82	317.53	15 Nov 2020 to 1 Dec 2026 (Note 10)
	17,582	–	–	–	17,582	316.91	
8 Jan 2020	74,340	–	–	–	74,340	360.78	15 Dec 2020 to 7 Jan 2027 (Note 10)
	37,170	–	–	–	37,170	359.81	



Tencent Holdings Limited



Directors' Report

Date of grant	Number of share options				As at 31 December 2022	Exercise price HKD (Notes 16 and 17)	Exercise period/ Performance targets (Note 22)
	As at 1 January 2022	Granted during the year (Notes 14 and 15)	Exercised during the year (Note 13)	Lapsed/ forfeited during the year			
8 Jan 2020	17,500	–	–	17,500	–	360.78	15 Jan 2021 to 7 Jan 2027 (Note 10)
	8,750	–	–	8,750	–	359.82	
20 Mar 2020	2,140	–	2,140	–	–	359.60	21 Jan 2021 to 19 Mar 2027 (Note 9)
	102,255	–	–	2,002	100,253	340.50	
	190,658	–	818	2,003	187,837	340.47	
20 Mar 2020	597,545	–	–	–	597,545	340.50	20 Mar 2021 to 19 Mar 2027 (Note 8)
	646,205	–	–	–	646,205	340.31	
	646,205	–	–	–	646,205	339.51	
	670,536	–	–	–	670,536	338.82	
22 May 2020	16,613	–	–	–	16,613	406.98	15 May 2021 to 21 May 2027 (Note 10)
	16,613	–	–	–	16,613	406.50	
	16,614	–	–	–	16,614	405.70	
10 Jul 2020	18,860	–	–	18,860	–	546.50	5 Jul 2021 to 9 Jul 2027 (Note 8)
	325,203	–	–	16,717	308,486	520.29	
	338,737	–	–	16,721	322,016	520.16	
	338,812	–	–	16,726	322,086	518.51	
	338,859	–	–	16,727	322,132	518.25	
10 Jul 2020	876	–	–	–	876	520.16	5 Jul 2022 to 9 Jul 2027 (Note 8)
	877	–	–	–	877	518.51	
	877	–	–	–	877	518.25	
	877	–	–	–	877	518.08	





Directors' Report

Date of grant	Number of share options				As at 31 December 2022	Exercise price HKD (Notes 16 and 17)	Exercise period/ Performance targets (Note 22)
	As at 1 January 2022	Granted during the year (Notes 14 and 15)	Exercised during the year (Note 13)	Lapsed/ forfeited during the year			
21 Aug 2020	12,232	–	–	–	12,232	491.48	15 Jul 2021 to 20 Aug 2027 (Note 9)
	12,233	–	–	–	12,233	491.22	
21 Aug 2020	3,511	–	–	–	3,511	491.48	15 Aug 2021 to 20 Aug 2027 (Note 10)
	3,512	–	–	–	3,512	491.16	
	3,512	–	–	–	3,512	490.57	
21 Aug 2020	1,239	–	–	–	1,239	491.48	15 Aug 2021 to 20 Aug 2027 (Note 8)
	1,240	–	–	–	1,240	491.16	
	1,242	–	–	–	1,242	490.57	
	1,243	–	–	–	1,243	490.30	
23 Nov 2020	54,353	–	–	–	54,353	557.52	15 Oct 2021 to 22 Nov 2027 (Note 9)
	54,355	–	–	38,992	15,363	557.28	
23 Nov 2020	2,951	–	–	–	2,951	557.52	15 Oct 2021 to 22 Nov 2027 (Note 10)
	2,952	–	–	–	2,952	557.28	
	2,952	–	–	–	2,952	556.65	
23 Nov 2020	4,206	–	–	–	4,206	557.52	15 Nov 2021 to 22 Nov 2027 (Note 8)
	4,206	–	–	–	4,206	557.23	
	4,206	–	–	–	4,206	556.59	
	4,207	–	–	–	4,207	555.91	



Tencent Holdings Limited



Directors' Report

Date of grant	Number of share options				As at 31 December 2022	Exercise price HKD (Notes 16 and 17)	Exercise period/ Performance targets (Note 22)
	As at 1 January 2022	Granted during the year (Notes 14 and 15)	Exercised during the year (Note 13)	Lapsed/ forfeited during the year			
23 Dec 2020	7,014	–	–	–	7,014	547.29	15 Dec 2021 to 22 Dec 2027 (Note 9)
	7,014	–	–	–	7,014	546.94	
23 Dec 2020	35,069	–	–	–	35,069	547.29	15 Dec 2021 to 22 Dec 2027 (Note 10)
	35,069	–	–	–	35,069	546.94	
	35,069	–	–	–	35,069	546.44	
30 Mar 2021	531,351	–	–	6,353	524,998	588.81	8 Feb 2022 to 29 Mar 2028 (Note 9)
	531,559	–	–	6,359	525,200	588.52	
30 Mar 2021	25,083	–	–	–	25,083	588.81	8 Feb 2022 to 29 Mar 2028 (Note 8)
	25,083	–	–	–	25,083	588.52	
	25,084	–	–	–	25,084	588.00	
	25,085	–	–	–	25,085	587.47	
30 Mar 2021	1,444	–	–	–	1,444	588.81	15 Feb 2022 to 29 Mar 2028 (Note 10)
	1,444	–	–	–	1,444	588.52	
	1,445	–	–	–	1,445	588.00	
30 Mar 2021	761	–	–	–	761	588.81	15 Feb 2022 to 29 Mar 2028 (Note 8)
	762	–	–	–	762	588.52	
	763	–	–	–	763	588.00	
	763	–	–	–	763	587.45	





Directors' Report

Date of grant	Number of share options				As at 31 December 2022	Exercise price HKD (Notes 16 and 17)	Exercise period/ Performance targets (Note 22)
	As at 1 January 2022	Granted during the year (Notes 14 and 15)	Exercised during the year (Note 13)	Lapsed/ forfeited during the year			
30 Mar 2021	966,958	–	–	–	966,958	588.81	30 Mar 2022 to 29 Mar 2028 (Note 8)
	966,958	–	–	–	966,958	588.46	
	966,961	–	–	–	966,961	587.93	
	966,964	–	–	–	966,964	587.39	
10 Jun 2021	2,944	–	–	–	2,944	576.17	5 Jul 2021 to 9 Jun 2028 (Note 8)
	2,944	–	–	–	2,944	576.07	
	2,945	–	–	–	2,945	575.42	
	2,945	–	–	–	2,945	574.88	
10 Jun 2021	50,534	–	–	–	50,534	576.14	15 May 2022 to 9 Jun 2028 (Note 10)
	50,536	–	–	–	50,536	575.50	
	50,537	–	–	–	50,537	575.01	
14 Jul 2021	5,292	–	–	5,292	–	556.50	5 Jul 2022 to 13 Jul 2028 (Note 8)
	1,986,044	–	–	68,255	1,917,789	529.43	
	1,986,342	–	–	68,262	1,918,080	528.86	
	1,986,635	–	–	68,270	1,918,365	528.24	
	1,986,971	–	–	68,278	1,918,693	527.66	



Tencent Holdings Limited



Directors' Report

Date of grant	Number of share options				As at 31 December 2022	Exercise price HKD (Notes 16 and 17)	Exercise period/ Performance targets (Note 22)
	As at 1 January 2022	Granted during the year (Notes 14 and 15)	Exercised during the year (Note 13)	Lapsed/ forfeited during the year			
16 Nov 2021	57,632	–	–	–	57,632	477.31	15 Sep 2022 to 15 Nov 2028 (Note 10)
	57,632	–	–	–	57,632	476.59	
	57,633	–	–	–	57,633	474.28	
16 Nov 2021	5,231	–	–	–	5,231	475.09	15 Oct 2022 to 15 Nov 2028 (Note 10)
	5,231	–	–	–	5,231	474.37	
	5,232	–	–	–	5,232	474.15	
24 Mar 2022	–	35,803	–	–	35,803	384.08	5 Jul 2022 to 23 Mar 2029 (Notes 8 and 11)
24 Mar 2022	–	1,589,461	–	9,211	1,580,250	384.08	27 Jan 2023 to 23 Mar 2029 (Notes 9 and 11)
24 Mar 2022	–	9,282	–	–	9,282	384.08	15 Feb 2023 to 23 Mar 2029 (Notes 10 and 11)
24 Mar 2022	–	29,919	–	–	29,919	384.08	15 Feb 2023 to 23 Mar 2029 (Notes 8 and 11)
24 Mar 2022	–	5,597,422	–	–	5,597,422	384.08	24 Mar 2023 to 23 Mar 2029 (Notes 8 and 11)
18 Aug 2022	–	5,516,928	–	33,658	5,483,270	312.60	15 Jul 2023 to 17 Aug 2029 (Notes 8 and 12)
Total	<u>93,338,573</u>	<u>12,778,815</u>	<u>6,806,825</u>	<u>852,640</u>	<u>98,457,923</u>		





Directors' Report

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 50% of the total options shall be vested and can be exercised 1 year after the grant date, and the remaining 50% of the total options will be vested and become exercisable in the subsequent year.
2. For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options shall be vested and can be exercised 1 year after the grant date, and each 33.33% (one-third) of the total options will be vested and become exercisable in each subsequent year.
3. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options shall be vested and can be exercised 1 year after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.
4. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options shall be vested and can be exercised 2 years after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.
5. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options shall be vested and can be exercised 3 years after the grant date, and each 25% of the total options will be vested and become exercisable in each subsequent year.
6. For options granted with exercisable date determined based on the grant date of options, 100% of the total options shall be vested and can be exercised 5 years after the grant date.
7. Subject to the satisfaction of certain conditions, the first 25% of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will be vested and become exercisable in each subsequent year.
8. The first 25% of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will be vested and become exercisable in each subsequent year.
9. The first 50% of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and the remaining 50% of the total options will be vested and become exercisable in the subsequent year.
10. The first 33.33% (one-third) of the total options shall be vested and can be exercised on the dates as specified in the relevant grant letters, and each 33.33% (one-third) of the total options will be vested and become exercisable in each subsequent year.
11. The closing price immediately before the date on which the options were granted on 24 March 2022 was HKD389 per Share, which was adjusted to HKD369.464 per Share as at 5 January 2023 (Meituan ex-dividend date).



Tencent Holdings Limited



Directors' Report

12. The closing price immediately before the date on which the options were granted on 18 August 2022 was HKD303.2 per Share, which was adjusted to HKD287.973 per Share as at 5 January 2023 (Meituan ex-dividend date).
13. The weighted average closing price immediately before the date on which the options were exercised was HKD304.9 per Share, which was adjusted to HKD289.589 per Share as at 5 January 2023 (Meituan ex-dividend date).
14. The average fair value of the options granted on 24 March 2022 was HKD119.18 per Share at the date of grant.
15. The fair value of the options granted on 18 August 2022 was HKD106.26 per Share at the date of grant.
16. As a result of the distribution in specie of JD.com Shares, pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, adjustments had been made to the exercise prices of the share options which remained outstanding as at 20 January 2022 (JD.com ex-dividend date). The adjusted exercise prices of the share options are reflected above. Please refer to the announcement of the Company dated 14 March 2022 for details.
17. As a result of the distribution in specie of Meituan Shares, pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, further adjustments had been made to the exercise prices of the share options as shown above which remained outstanding as at 5 January 2023 (Meituan ex-dividend date). The adjusted exercise prices of the share options had not been reflected above and were expected to be reflected during the year ending 31 December 2023. Please refer to the announcement of the Company dated 9 January 2023 for details.
18. No options granted to the employees of the Group were cancelled during the year ended 31 December 2022.
19. All of the above grants were made prior to the amendment to Chapter 17 of the Listing Rules taking effect.
20. None of the grants of options to any participant is in excess of the 1% individual limit.
21. Details of the valuation of share options of the Company during the year, including the accounting standard and policy adopted for the share option schemes, are set out in Note 35 and Note 2.26 to the consolidated financial statements.
22. All of the grants made during the year ended 31 December 2022 were made without any performance targets.





Directors' Report

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 (Note 1).	The maximum number of Shares in respect of which options may be granted under the Post-IPO Option Scheme IV shall be 379,099,339 Shares, 4% of the relevant class of securities of the Company in issue as at 17 May 2017 (Note 2).
4. Maximum entitlement of each participant	1% of the issued Shares from time to time within any 12-month period up to the date of the latest grant.	1% of the issued Shares from time to time within any 12-month period up to the date of the latest grant.



Tencent Holdings Limited



Directors' Report

Details	Post-IPO Option Scheme II	Post-IPO Option Scheme IV
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. Vesting period	The total vesting period of options granted ranges from approximately 24 to 83 months.	The total vesting period of options granted ranges from approximately 22 to 72 months.
7. 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.
8. 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.
9. Remaining life of the scheme	It expired on 16 May 2017.	It is to be expired on 17 May 2027, subject to early termination (i.e. the remaining life of the scheme is approximately 4 years and 2 months as at the date of this annual report).





Directors' Report

Note:

1. The Post-IPO Option Scheme II expired on 16 May 2017 and no further options will be granted under the scheme.
2. The total number of Shares available for issue under the Post-IPO Option Scheme IV is 366,853,795, which represents approximately 3.83% of the issued Shares as at the date of this annual report.
3. The total number of options available for grant under the scheme mandate of the Post-IPO Option Scheme IV as at 1 January 2022 and 31 December 2022 were 289,802,600 and 277,023,785 respectively.
4. The total number of unexercised outstanding options (i.e. the total number of Shares available for issue) under the Post-IPO Option Scheme II is 25,274,366, which represents approximately 0.26% of the issued Shares as at the date of this annual report.



Tencent Holdings Limited



Directors' Report

MOVEMENTS IN THE SHARE OPTIONS

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

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 persons (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.





Directors' Report

	2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
3. Eligible Persons	Any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group, any invested entity or any business partner and any consultant, adviser or agent of any member of the Group, any invested entity or any business partner, 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), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group, any invested entity or any business partner and any consultant, adviser or agent of any member of the Group, any invested entity or any business partner, 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), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group, any invested entity or any business partner and any consultant, adviser or agent of any member of the Group, any invested entity or any business partner, who have contributed or will contribute to the growth and development of the Group or any invested entity
4. Maximum number of Shares that can be awarded	2% of the issued Shares as at the Adoption Date I (i.e. 178,776,160 Shares (after the effect of the Share Subdivision))	3% of the issued Shares as at the Adoption Date II (i.e. 278,937,260 Shares (after the effect of the Share Subdivision))	2% of the issued Shares as at the Adoption Date III (i.e. 191,047,317 Shares)



Tencent Holdings Limited



Directors' Report

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





Directors' Report

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



Tencent Holdings Limited



Directors' Report

	2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
7. 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.





Directors' Report

	2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
8. 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 total vesting period of Awarded Shares granted ranges from approximately 2 to 101 months.	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. The Awarded Shares can either be vested immediately or up to a period of approximately 84 months, subject to a vesting schedule as determined by the Board on the date of grant. 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. The Awarded Shares can either be vested immediately or up to a period of approximately 60 months, subject to a vesting schedule as determined by the Board on the date of grant. 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.
9. Purchase price	Not applicable	Not applicable	Not applicable
10. 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.



Tencent Holdings Limited



Directors' Report

	2007 Share Award Scheme	2013 Share Award Scheme	2019 Share Award Scheme
11. Remaining life of scheme	It expired on 13 December 2022.	It is to be expired on 13 November 2028, subject to early termination (i.e. the remaining life of the scheme is approximately 5 years and 8 months as at the date of this annual report).	It is to be expired on 25 November 2034, subject to early termination (i.e. the remaining life of the scheme is approximately 11 years and 8 months as at the date of this annual report).

Note:

1. The total number of awards available for grant under the scheme mandate of the 2013 Share Award Scheme as at 1 January 2022 and 31 December 2022 were 25,920,768 and 13,790,025 respectively.
2. The total number of awards available for grant under the scheme mandate of the 2019 Share Award Scheme as at 1 January 2022 and 31 December 2022 were 84,796,650 and 31,752,436 respectively.

The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. Under the transitional arrangements before the Share Award Schemes are amended to comply with the new Chapter 17 of the Listing Rules that became effective on 1 January 2023, 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 11,233,582 and 50,335,141 Awarded Shares were granted under the 2013 Share Award Scheme and the 2019 Share Award Scheme respectively and out of which, 58,398 Awarded Shares were granted to the independent non-executive directors of the Company under the 2019 Share Award Scheme. In addition, a total of 3,606,234 additional Awarded Shares were awarded pursuant to adjustments made as a result of the distribution in specie of JD.com Shares and out of which, 3,182 Awarded Shares were awarded to the independent non-executive directors of the Company. Details of the movements in the Share Award Schemes during the year are set out in Note 35 to the consolidated financial statements.

During the year, a total of 61,003,466 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.

The total number of Shares available for issue under the 2013 Share Award Scheme and the 2019 Share Award Scheme are 13,127,644 and 55,766,622, respectively, which represent approximately 0.14% and 0.58% of the issued Shares as at the date of this annual report.

The 2007 Share Award Scheme expired on 13 December 2022. There are no unvested awards under the 2007 Share Award Scheme.

The total number of Shares that may be issued in respect of options and awards granted under all schemes of the Company during the year divided by the weighted average number of Shares in issue for the year was 0.64%.





Directors' Report

As at 31 December 2022, there were a total of 125,609 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					Vesting period
		As at 1 January 2022	Granted during the year	Additional Awarded Shares (Note 1)	Vested during the year (Note 7)	As at 31 December 2022 (Note 2)	
Ian Charles Stone	9 April 2018	3,250	–	98	3,348	–	9 April 2019 to 9 April 2022
	4 April 2019	8,500	–	255	4,377	4,378	4 April 2020 to 4 April 2023
	20 March 2020	12,750	–	383	4,377	8,756	20 March 2021 to 20 March 2024
	30 March 2021	14,000	–	420	3,605	10,815	30 March 2022 to 30 March 2025
	24 March 2022	–	18,000	–	–	18,000	24 March 2023 to 24 March 2026 (Notes 3 and 5)
	Total:	38,500	18,000	1,156	15,707	41,949	
Li Dong Sheng	9 April 2018	1,625	–	49	1,674	–	9 April 2019 to 9 April 2022
	4 April 2019	4,250	–	128	2,188	2,190	4 April 2020 to 4 April 2023
	20 March 2020	6,375	–	191	2,188	4,378	20 March 2021 to 20 March 2024
	30 March 2021	7,000	–	210	1,802	5,408	30 March 2022 to 30 March 2025
	24 March 2022	–	9,000	–	–	9,000	24 March 2023 to 24 March 2026 (Notes 3 and 5)
	Total:	19,250	9,000	578	7,852	20,976	



Tencent Holdings Limited



Directors' Report

Name of director	Date of grant	Number of Awarded Shares					Vesting period
		As at 1 January 2022	Granted during the year	Additional Awarded Shares (Note 1)	Vested during the year (Note 7)	As at 31 December 2022 (Note 2)	
Yang Siu Shun	9 April 2018	2,500	–	75	2,575	–	9 April 2019 to 9 April 2022
	4 April 2019	7,500	–	225	3,862	3,863	4 April 2020 to 4 April 2023
	20 March 2020	11,250	–	338	3,862	7,726	20 March 2021 to 20 March 2024
	30 March 2021	12,500	–	375	3,218	9,657	30 March 2022 to 30 March 2025
	24 March 2022	–	16,000	–	–	16,000	24 March 2023 to 24 March 2026 (Notes 3 and 5)
Total:		33,750	16,000	1,013	13,517	37,246	
Ke Yang	23 August 2019	2,992	–	90	1,540	1,542	23 August 2020 to 23 August 2023
	20 March 2020	4,500	–	135	1,545	3,090	20 March 2021 to 20 March 2024
	30 March 2021	7,000	–	210	1,802	5,408	30 March 2022 to 30 March 2025
	24 March 2022	–	9,000	–	–	9,000	24 March 2023 to 24 March 2026 (Notes 3 and 5)
	Total:	14,492	9,000	435	4,887	19,040	
Zhang Xiulan	18 August 2022	–	6,398	–	–	6,398	18 August 2023 to 18 August 2026 (Notes 4 and 6)
	Total:	–	6,398	–	–	6,398	
Grand Total:		105,992	58,398	3,182	41,963	125,609	

Annual Report 2022





Directors' Report

Note:

1. As a result of the distribution in specie of JD.com Shares, pursuant to the scheme rules of the 2013 Share Award Scheme and the 2019 Share Award Scheme, adjustments had been made to the number of Shares subject to share awards which remained unvested as at 20 January 2022 (JD.com ex-dividend date). The number of additional Awarded Shares awarded pursuant to the adjustments is shown above. Please refer to the announcement of the Company dated 14 March 2022 for details.
2. As a result of the distribution in specie of Meituan Shares, pursuant to the scheme rules of the 2013 Share Award Scheme and the 2019 Share Award Scheme, further adjustments had been made to the number of Shares subject to share awards which remained unvested as at 5 January 2023 (Meituan ex-dividend date). The adjusted number of Awarded Shares had not been reflected above and were expected to be reflected during the year ending 31 December 2023. Please refer to the announcement of the Company dated 9 January 2023 for details.
3. The closing price immediately before the date on which the Awarded Shares were granted on 24 March 2022 was HKD389 per Share.
4. The closing price immediately before the date on which the Awarded Shares were granted on 18 August 2022 was HKD303.2 per Share.
5. The fair value of the awards granted on 24 March 2022 was HKD366 per Share at the date of grant.
6. The fair value of the awards granted on 18 August 2022 was HKD312.6 per Share at the date of grant.
7. The weighted average closing price of the Shares immediately before the dates on which the awards were vested in 2022 was HKD374.86 per Share.
8. No Awarded Shares granted to the directors were lapsed or cancelled during the year ended 31 December 2022.
9. All of the grants made during the year ended 31 December 2022 were made without any performance targets.
10. All of the above grants were made prior to the amendment to Chapter 17 of the Listing Rules taking effect.



Tencent Holdings Limited



Directors' Report

Details of movements of Awarded Shares of the Group (apart from directors of the Company) during the year ended 31 December 2022 are as follows:

Year of grant	Number of Awarded Shares						Vesting period/ Performance target (Note 10)
	As at 1 January 2022	Granted during the year	Additional Awarded Shares (Note 12)	Vested during the year (Note 3)	Lapsed/ forfeited during the year	As at 31 December 2022 (Note 13)	
Employee Participants *							
<i>Top five highest paid employees (Note 11)</i>							
2019	15,000,000	–	450,000	–	–	15,450,000	Note 1
2021	9,319,113	–	279,573	2,399,671	–	7,199,015	Note 1
Sub-total:	24,319,113	–	729,573	2,399,671	–	22,649,015	
<i>Other Employee Participants</i>							
2013	10,000	–	–	10,000	–	–	Note 1
2014	13,050	–	–	13,050	–	–	Note 1
2015	27,616	–	–	27,616	–	–	Note 1
2016	536,850	–	15,184	538,611	6,324	7,099	Note 1
2017	53,021	–	1,592	21,712	1,980	30,921	Note 1
2018	2,772,678	–	81,738	2,730,228	73,713	50,475	Note 1
2019	11,894,847	–	351,689	6,520,008	779,160	4,947,368	Note 1
2020	20,042,210	–	589,690	8,830,058	1,799,628	10,002,214	Note 1
2021	61,270,403	–	1,826,282	21,583,361	4,643,964	36,869,360	Note 1
2022	–	60,892,716	–	10,883,463	1,359,498	48,649,755	Notes 1 and 5
Sub-total:	96,620,675	60,892,716	2,866,175	51,158,107	8,664,267	100,557,192	
Total:	120,939,788	60,892,716	3,595,748	53,557,778	8,664,267	123,206,207	
Service Providers #							
(Note 4)							
2017	9,087	–	–	9,087	–	–	Note 2
2018	4,035	–	121	4,156	–	–	Note 2
2019	18,466	–	555	13,560	1,862	3,599	Note 2
2020	80,819	–	2,052	61,307	4,438	17,126	Note 2
2021	156,209	–	4,576	45,065	6,441	109,279	Note 2
2022	–	617,609	–	218,251	–	399,358	Notes 2 and 5
Total:	268,616	617,609	7,304	351,426	12,741	529,362	
Grand Total:	121,208,404	61,510,325	3,603,052	53,909,204	8,677,008	123,735,569	





Directors' Report

Note:

1. The Awarded Shares can either be vested immediately or over a period of up to 7 years.
2. The Awarded Shares can either be vested immediately or over a period of up to 4 years.
3. For Employee Participants, the weighted average closing price of the Shares immediately before the dates on which the awards were vested in 2022 was HKD352.24 per Share.
4. For Service Providers, the weighted average closing price of the Shares immediately before the dates on which the awards were vested in 2022 was HKD333.64 per Share.
5. The following grants were made during 2022:

Date of grant	Vesting period	Number of Shares granted	Closing price of Shares immediately before date of grant HKD	Fair value of awards at the date of grant per Share HKD
Employee Participants				
24 Mar 2022	1 Apr 2023 to 1 Apr 2026	35,244	389.0	366.0
24 Mar 2022	1 Jan 2023 to 1 Jan 2026	103,440	389.0	366.0
24 Mar 2022	1 Oct 2022 to 1 Oct 2025	29,251	389.0	366.0
24 Mar 2022	5 Jul 2022 to 5 Jul 2025	33,744	389.0	366.0
24 Mar 2022	8 Apr 2022 to 27 Jan 2024	5,783	389.0	366.0
24 Mar 2022	15 Apr 2024	620,914	389.0	366.0
24 Mar 2022	15 Apr 2024 to 27 Jan 2025	174,961	389.0	366.0
24 Mar 2022	15 Dec 2022 to 15 Dec 2023	81,118	389.0	366.0
24 Mar 2022	15 Dec 2022 to 15 Dec 2024	976,328	389.0	366.0
24 Mar 2022	15 Dec 2022 to 15 Dec 2025	3,559	389.0	366.0
24 Mar 2022	15 Dec 2023 to 15 Dec 2025	19,289	389.0	366.0
24 Mar 2022	15 Feb 2023 to 15 Feb 2024	54,268	389.0	366.0



Tencent Holdings Limited



Directors' Report

Date of grant	Vesting period	Number of Shares granted	Closing price of Shares immediately before date of grant HKD	Fair value of awards at the date of grant per Share HKD
Employee Participants				
24 Mar 2022	15 Feb 2023 to 15 Feb 2025	936,925	389.0	366.0
24 Mar 2022	15 Feb 2023 to 15 Feb 2026	253,874	389.0	366.0
24 Mar 2022	15 Feb 2024 to 15 Feb 2026	91,682	389.0	366.0
24 Mar 2022	15 Jan 2023 to 15 Jan 2024	93,362	389.0	366.0
24 Mar 2022	15 Jan 2023 to 15 Jan 2025	1,421,877	389.0	366.0
24 Mar 2022	15 Jan 2023 to 15 Jan 2026	3,201	389.0	366.0
24 Mar 2022	15 Jan 2024 to 15 Jan 2026	22,146	389.0	366.0
24 Mar 2022	15 Mar 2023 to 15 Mar 2024	93,061	389.0	366.0
24 Mar 2022	15 Mar 2023 to 15 Mar 2025	1,018,382	389.0	366.0
24 Mar 2022	15 Mar 2023 to 15 Mar 2026	3,884	389.0	366.0
24 Mar 2022	15 Mar 2024 to 15 Mar 2026	27,136	389.0	366.0
24 Mar 2022	15 Nov 2022 to 15 Nov 2025	1,714	389.0	366.0
24 Mar 2022	24 Mar 2023 to 24 Mar 2026	2,140,780	389.0	366.0
24 Mar 2022	27 Jan 2023 to 27 Jan 2024	8,398,397	389.0	366.0
23 May 2022	15 Apr 2023 to 15 Apr 2024	132,094	352.2	346.8
23 May 2022	15 Apr 2023 to 15 Apr 2025	911,250	352.2	346.8
23 May 2022	15 Apr 2024 to 15 Apr 2026	10,544	352.2	346.8
23 May 2022	15 Dec 2022 to 15 Dec 2024	1,582	352.2	346.8

Annual Report 2022





Directors' Report

Date of grant	Vesting period	Number of Shares granted	Closing price of Shares immediately before date of grant HKD	Fair value of awards at the date of grant per Share HKD
Employee Participants				
23 May 2022	15 Feb 2023 to 15 Feb 2024	1,297	352.2	346.8
23 May 2022	15 Feb 2023 to 15 Feb 2025	56,392	352.2	346.8
23 May 2022	15 Jun 2023 to 15 Jun 2025	42,174	352.2	346.8
23 May 2022	15 Mar 2023 to 15 Mar 2025	86,654	352.2	346.8
23 May 2022	15 May 2023 to 15 May 2024	73,181	352.2	346.8
23 May 2022	15 May 2023 to 15 May 2025	536,881	352.2	346.8
23 May 2022	15 May 2024 to 15 May 2026	25,494	352.2	346.8
23 May 2022	23 May 2022	103	352.2	346.8
18 Aug 2022	1 Apr 2023 to 1 Apr 2026	81,513	303.2	312.6
18 Aug 2022	1 Apr 2023 to 1 Apr 2029	240,564	303.2	312.6
18 Aug 2022	1 Jul 2023 to 1 Jul 2026	9,523	303.2	312.6
18 Aug 2022	15 Aug 2023 to 15 Aug 2024	341,044	303.2	312.6
18 Aug 2022	15 Aug 2023 to 15 Aug 2025	452,937	303.2	312.6
18 Aug 2022	15 Aug 2023 to 15 Aug 2026	11,395	303.2	312.6
18 Aug 2022	15 Aug 2024 to 15 Aug 2026	28,543	303.2	312.6
18 Aug 2022	15 Dec 2022 to 15 Dec 2023	826	303.2	312.6
18 Aug 2022	15 Jul 2023 to 15 Jul 2024	2,175,664	303.2	312.6



Tencent Holdings Limited



Directors' Report

Date of grant	Vesting period	Number of Shares granted	Closing price of Shares immediately before date of grant HKD	Fair value of awards at the date of grant per Share HKD
Employee Participants				
18 Aug 2022	15 Jul 2023 to 15 Jul 2025	434,842	303.2	312.6
18 Aug 2022	15 Jul 2023 to 15 Jul 2026	25,166,881	303.2	312.6
18 Aug 2022	15 Jul 2024 to 15 Jul 2026	23,647	303.2	312.6
18 Aug 2022	15 Jun 2023 to 15 Jun 2024	47,196	303.2	312.6
18 Aug 2022	15 Jun 2023 to 15 Jun 2025	630,840	303.2	312.6
18 Aug 2022	15 Jun 2024 to 15 Jun 2026	12,509	303.2	312.6
18 Aug 2022	15 May 2023 to 15 May 2025	2,696	303.2	312.6
18 Aug 2022	18 Aug 2022	3,601,259	303.2	312.6
17 Nov 2022	1 Jul 2023 to 1 Jul 2026	15,698	294.4	292.0
17 Nov 2022	1 Oct 2023 to 1 Oct 2026	33,492	294.4	292.0
17 Nov 2022	15 Apr 2023 to 15 Apr 2025	133,400	294.4	292.0
17 Nov 2022	15 Aug 2023 to 15 Aug 2024	7,856	294.4	292.0
17 Nov 2022	15 Aug 2023 to 15 Aug 2025	54,850	294.4	292.0
17 Nov 2022	15 Aug 2023 to 15 Aug 2026	47,910	294.4	292.0
17 Nov 2022	15 Aug 2024 to 15 Aug 2026	3,540	294.4	292.0





Directors' Report

Date of grant	Vesting period	Number of Shares granted	Closing price of Shares immediately before date of grant HKD	Fair value of awards at the date of grant per Share HKD
Employee Participants				
17 Nov 2022	15 Jan 2023 to 15 Jan 2025	9,065	294.4	292.0
17 Nov 2022	15 Jul 2023 to 15 Jul 2026	4,282	294.4	292.0
17 Nov 2022	15 Jun 2023 to 15 Jun 2025	90,031	294.4	292.0
17 Nov 2022	15 May 2023 to 15 May 2025	1,657	294.4	292.0
17 Nov 2022	15 Nov 2023 to 15 Nov 2024	12,396	294.4	292.0
17 Nov 2022	15 Nov 2023 to 15 Nov 2025	728,285	294.4	292.0
17 Nov 2022	15 Nov 2023 to 15 Nov 2026	13,760	294.4	292.0
17 Nov 2022	15 Nov 2024 to 15 Nov 2026	35,657	294.4	292.0
17 Nov 2022	15 Oct 2023 to 15 Oct 2024	31,404	294.4	292.0
17 Nov 2022	15 Oct 2023 to 15 Oct 2025	499,945	294.4	292.0
17 Nov 2022	15 Oct 2023 to 15 Oct 2026	2,795	294.4	292.0
17 Nov 2022	15 Oct 2024 to 15 Oct 2026	30,545	294.4	292.0
17 Nov 2022	15 Sep 2023 to 15 Sep 2024	43,474	294.4	292.0
17 Nov 2022	15 Sep 2023 to 15 Sep 2025	357,064	294.4	292.0
17 Nov 2022	15 Sep 2023 to 15 Sep 2026	5,430	294.4	292.0
17 Nov 2022	15 Sep 2024 to 15 Sep 2026	3,177	294.4	292.0



Tencent Holdings Limited



Directors' Report

Date of grant	Vesting period	Number of Shares granted	Closing price of Shares immediately before date of grant HKD	Fair value of awards at the date of grant per Share HKD
Employee Participants				
17 Nov 2022	17 Nov 2022 to 5 Jul 2025	3,337	294.4	292.0
7 Dec 2022	7 Dec 2022	6,939,821	311.8	300.2
	Total:	60,892,716		
Service Providers				
24 Mar 2022	15 Apr 2023 to 15 Apr 2026	6,899	389.0	366.0
24 Mar 2022	15 Feb 2023 to 15 Feb 2026	16,347	389.0	366.0
24 Mar 2022	15 Mar 2023 to 15 Mar 2026	11,854	389.0	366.0
24 Mar 2022	24 Mar 2023 to 24 Mar 2024	12,806	389.0	366.0
24 Mar 2022	24 Mar 2024 to 24 Mar 2025	12,806	389.0	366.0
23 May 2022	15 Apr 2023 to 15 Apr 2026	3,848	352.2	346.8
23 May 2022	15 Mar 2023 to 15 Mar 2024	4,907	352.2	346.8
23 May 2022	15 May 2023 to 15 May 2026	10,945	352.2	346.8
18 Aug 2022	15 Aug 2023 to 15 Aug 2026	37,307	303.2	312.6
18 Aug 2022	15 Jul 2023 to 15 Jul 2026	68,379	303.2	312.6
18 Aug 2022	15 Jun 2023 to 15 Jun 2026	7,810	303.2	312.6
18 Aug 2022	18 Aug 2022	123,333	303.2	312.6
17 Nov 2022	15 Aug 2023 to 15 Aug 2026	16,991	294.4	292.0
17 Nov 2022	15 Jul 2023 to 15 Jul 2026	2,136	294.4	292.0

Annual Report 2022





Directors' Report

Date of grant	Vesting period	Number of Shares granted	Closing price of Shares immediately before date of grant HKD	Fair value of awards at the date of grant per Share HKD
Service Providers				
17 Nov 2022	15 Nov 2023 to 15 Nov 2026	45,406	294.4	292.0
17 Nov 2022	15 Oct 2023 to 15 Oct 2026	34,757	294.4	292.0
17 Nov 2022	15 Sep 2023 to 15 Sep 2026	106,160	294.4	292.0
7 Dec 2022	7 Dec 2022	94,918	311.8	300.2
	Total:	617,609		
	Grand Total:	61,510,325		

6. No awards granted to the Employee Participants or the Service Providers were cancelled during the year ended 31 December 2022.
7. All of the above grants were made prior to the amendment to Chapter 17 of the Listing Rules taking effect.
8. None of the grants of awards to any participant is in excess of the 1% individual limit.
9. Details of the valuation of share awards of the Company during the year, including the accounting standard and policy adopted for the Share Award Schemes, are set out in Note 35 and Note 2.26 to the consolidated financial statements.
10. All of the grants made during the year ended 31 December 2022 were made without any performance targets.
11. Disclosures herein with respect to the top five highest paid employees consist of the number of Awarded Shares to be satisfied by existing shares only. The number of Awarded Shares granted to the top five highest paid employees to be satisfied by shares to be issued are included under the "Employee Participants" category.
12. As a result of the distribution in specie of JD.com Shares, pursuant to the scheme rules of the 2013 Share Award Scheme and the 2019 Share Award Scheme, adjustments had been made to the number of Shares subject to share awards which remained unvested as at 20 January 2022 (JD.com ex-dividend date). The number of additional Awarded Shares awarded pursuant to the adjustments is shown above. Please refer to the announcement of the Company dated 14 March 2022 for details.
13. As a result of the distribution in specie of Meituan Shares, pursuant to the scheme rules of the 2013 Share Award Scheme and the 2019 Share Award Scheme, further adjustments had been made to the number of Shares subject to share awards which remained unvested as at 5 January 2023 (Meituan ex-dividend date). The adjusted number of Awarded Shares had not been reflected above and were expected to be reflected during the year ending 31 December 2023. Please refer to the announcement of the Company dated 9 January 2023 for details.



Tencent Holdings Limited



Directors' Report

- * Employee Participants include employees of any member of the Group (including persons who are granted options under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV or awards under the Share Award Schemes as an inducement to enter into employment contracts with these companies (as the case may be))
- # Service Providers include any person who, or which, provides services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group, including independent contractors, consultants, advisers, agents and suppliers, with reference to, among other things, research and development, engineering or technical contribution, the design or development or distribution of products/services provided by the Group, or otherwise will contribute significantly to the growth of the Group's financial or business performance for research and development, product commercialisation, marketing, innovation upgrading, strategic/commercial planning on corporate image and investor relations in investment environment of the Group, as determined by the Board in its sole and absolute discretion.

DIRECTORS AND SENIOR MANAGEMENT

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

Executive Directors

Ma Huateng (*Chairman*)

Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker

Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng

Ian Charles Stone

Yang Siu Shun

Ke Yang

Zhang Xiulan (appointed with effect from 18 August 2022)

In accordance with Article 87 of the Articles of Association, Mr Lau Chi Ping Martin and Mr Jacobus Petrus (Koos) Bekker will retire at the 2023 AGM. Mr Lau will not offer himself for re-election at the 2023 AGM and Mr Koos Bekker, being eligible, will offer himself for re-election. In addition, in accordance with Article 86(3) of the Articles of Association, Professor Zhang Xiulan, who was appointed as director with effect from 18 August 2022, will hold office until the 2023 AGM and, being eligible, will offer herself 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 51, 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 was a deputy to the 12th and 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 29 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 49, 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 director of Vipshop Holdings Limited, an online discount retailer company, that is listed on the New York Stock Exchange. Mr Lau was a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider, and Meituan, a leading eCommerce platform for services in China, both of these companies are publicly listed on the Stock Exchange, up to 23 August 2022 and 16 November 2022 respectively. Mr Lau was a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, up to 18 August 2020, DiDi Global Inc., a leading mobility technology platform in China, up to 13 April 2022, and TME, an online music entertainment platform in China, up to 26 May 2022, all of these companies are listed on the New York Stock Exchange. Mr Lau was also a director of JD.com, an online direct sales company in China, that is listed on NASDAQ and the Stock Exchange, up to 23 December 2021. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company.



Tencent Holdings Limited



Directors' Report

Jacobus Petrus (Koos) Bekker, age 70, 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. 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 59, has been a non-executive director since June 2001. Mr Searle is currently the Chief Executive Officer of Naspers Internet Listed Assets. He serves on the board of a number of companies associated with the Naspers Group, and was a director of VK Company Limited (formerly known as Mail.ru Group Limited) that is listed on the London Stock Exchange and the Moscow Exchange until his resignation on 4 March 2022. 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 member of the Institute of Chartered Accountants in Australia and New Zealand. Mr Searle has more than 29 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 65, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Technology Group Corporation that is listed on the Shenzhen Stock Exchange, and the strategic development consultant of TCL Electronics Holdings Limited that is listed on the Stock Exchange, both of which produce consumer electronic products. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 28 years of experience in the information technology field. Mr Li was a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China, that is listed on the Stock Exchange, up to 29 May 2020, and was the Chairman and an executive director of TCL Electronics Holdings Limited, up to 9 August 2021.





Directors' Report

Ian Charles Stone, age 72, 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 33 years has been primarily in leading mobile telecoms businesses, and new wireless and Internet technology, during which time he held senior roles in PCCW, SmarTone, First Pacific, Hong Kong Telecom and CSL, as Chief Executive or at Director level, primarily in Hong Kong, and also in London and Manila. Since 2011, Mr Stone has provided telecoms advisory services to telecom companies and investors in Hong Kong (China), the Mainland of China, South East Asia and the Middle East and has more than 52 years of experience in the telecom and mobile industries. Mr Stone is also an independent director of Summit Healthcare Acquisition Corp. that is listed on NASDAQ. Mr Stone is a fellow member of The Hong Kong Institute of Directors.

Yang Siu Shun, age 67, has been an independent non-executive director since July 2016. Mr Yang is currently serving as a Member of the 14th National Committee of the Chinese People's Political Consultative Conference, a Justice of the Peace in Hong Kong, a Steward of the Hong Kong Jockey Club, and an independent non-executive director of Industrial and Commercial Bank of China Limited which is publicly listed on the Stock Exchange and the Shanghai Stock Exchange. Mr Yang is also an independent non-executive director of Man Wah Holdings Limited and Xinyi Glass Holdings Limited, both of these companies are publicly listed on the Stock Exchange. Mr Yang retired from PricewaterhouseCoopers ("PwC") on 30 June 2015. Before his retirement, he served as the Chairman and Senior Partner of PwC Hong Kong, the Executive Chairman and Senior Partner of PwC China and Hong Kong, one of the five members of the Global Network Leadership Team of PwC and the PwC Asia Pacific Chairman. Mr Yang served as a Board Member and the Audit Committee Chairman of The Hang Seng University of Hong Kong (formerly known as Hang Seng Management College), up to 30 September 2018 and the Deputy Chairman of the Council of Hong Kong Metropolitan University ("HKMU") (formerly known as The Open University of Hong Kong), up to 19 June 2019. Mr Yang also served as a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, up to 31 August 2021. Mr Yang graduated from the London School of Economics and Political Science in 1978 and was awarded the degree of Honorary Doctor of Social Sciences by HKMU in 2019. Mr Yang is a Fellow Member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.



Tencent Holdings Limited



Directors' Report

Ke Yang, age 67, 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 President of the Peking University Health Science Center Alumni Association, Vice-president of China Medical Women's Association, and Vice-president of Cancer Foundation of China. Professor Ke's research focus is on the upper gastrointestinal tumors, including the cloning of gastric cancer related genes and the functional study of such genes. Together with her team, she has also established the population cohort in esophageal cancer high incidence regions in China, studied the etiology of esophageal cancer, and evaluated the effects and economic efficacy of early screening of the disease. She has published more than 100 papers and had registered patents and been granted awards at national and provincial levels for technological and educational achievements. Professor Ke was a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference, an executive Vice-president of Peking University and of the Peking University Health Science Center (formerly known as Beijing Medical College), a member of the Committee of Academic Degrees of the State Council, a member of the Healthcare Reform Advisory Committee of the State Council, the Chairperson of the Working Committee for Graduate Medical and Pharmaceutical Education of the Office of Academic Degrees of the State Council, Vice-president of the 24th and 25th Chinese Medical Association, Vice-chairperson of the Steering Committee of Clinical Medicine of the Committee of Academic Degrees of the State Council, Vice-president of the Peking University Alumni Association, and President of the Health Professional Education Committee of the Chinese Association of Higher Education. Professor Ke graduated from the Peking University Health Science Center in 1982. From 1985 to 1988, Professor Ke worked at the National Cancer Institute of the National Institutes of Health of the United States as a postdoctoral fellow. Professor Ke is currently an independent non-executive director of Keymed Biosciences Inc. which is publicly listed on the Stock Exchange.

Zhang Xiulan, age 59, has been an independent non-executive director since August 2022. Professor Zhang is currently a consultant at the University of California, San Francisco. She was previously the Dean of the School of Social Development and Public Policy, Beijing Normal University. She was also a member of the 11th and 12th Beijing Municipal Committee of the Chinese People's Political Consultative Conference and a member of the Healthcare Reform Advisory Committee of the State Council. Professor Zhang has led over 40 research projects, including national level priority social science projects, and projects funded by the Ministry of Science and Technology and the Ministry of Education. In expert capacity, Professor Zhang has also provided expert consultation to government on policy making, including the 11th National Five-Year Plan, the "Five Guarantees Regulations", the Adjustment Mechanism for Urban Minimum Living Standard, Urban and Rural Medical Assistance Policy, Social Assistance System and others. In addition, Professor Zhang has also worked on mandates from the State Council Healthcare Restructuring Office, Ministry of Education, Ministry of Health, Ford Foundation, European Union, World Bank, World Health Organization, UNICEF, Save the Children Foundation and other organizations. Professor Zhang received her Bachelor's Degree in Physical Geography, and Master's Degree in Economic Geography from the Beijing Normal University in 1985 and 1988, respectively. After graduation, she joined the "China Society", a newspaper published by the Ministry of Civil Affairs as an Editor. In 1999, she received her Doctor of Philosophy in Social Welfare from the University of California at Berkeley with her research focused on social protection, social policy, social welfare and healthcare. In the same year, Professor Zhang founded the first Institute of Social Development and Public Policy in China at the Beijing Normal University, which subsequently became the School of Social Development and Public Policy.





Directors' Report

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 51, 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 47, Chief Operating Officer and President of Platform & Content Group and Interactive Entertainment Group, joined the Company in 2000 and had served as the General Manager for the Value-Added Services Development Division and General Manager for the Interactive Entertainment Business Division. Since September 2005, Mr Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr Ren has been appointed as Chief Operating Officer and is now in charge of the overall operation of the Platform & Content Group and the Interactive Entertainment Group. Prior to joining the Company, Mr Ren worked at Huawei Technologies Co., Ltd. Mr Ren received a Bachelor of Science degree in Computer Science and Engineering from University of Electronic Science and Technology of China in 1998 and an EMBA degree from China Europe International Business School (CEIBS) in 2008.

Zhang Xiaolong, age 53, 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 49, 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.



Tencent Holdings Limited



Directors' Report

Tong Tao Sang, age 49, Senior Executive Vice President, President of Cloud and Smart Industries Group, is leading the Industrial Internet strategy and the enterprise businesses for Tencent. Mr Tong manages the security labs, the multi-media lab, and Youtu AI lab, and he is one of the co-chairs of Tencent's technology council. Mr Tong joined the Company as a technical architect in 2005, and had previously led QQ, Qzone, QQshow, and their advertising and value-added services. Mr Tong received a Bachelor of Science degree in Computer Engineering from University of Michigan, Ann Arbor and a Master of Science degree in Electrical Engineering from Stanford University. Mr Tong currently serves as a director of certain subsidiaries of the Company.

Lu Shan, age 48, 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 48, Chief eXploration Officer and Senior Executive Vice President, joined the Company in 2001. He drives the Company's active participation in emerging technologies, business areas, and ideas, with a passion for contributing to a more resilient planet. Prior to joining the Company, Mr Wallerstein worked for Naspers in China. Mr Wallerstein received a Bachelor's degree from University of Washington and a Master's degree from UC Berkeley. Mr Wallerstein currently serves as a director of a subsidiary of the Company.

Ma Xiaoyi, age 49, 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 50, 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.





Directors' Report

John Shek Hon Lo, age 54, Chief Financial Officer and Senior Vice President, joined the Company in 2004 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr Lo worked at PricewaterhouseCoopers. He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants, a Fellow of the Chartered Institute of Management Accountants and a Member of the Association of Chartered Certified Accountants. Mr Lo received a Bachelor of Business degree in Accounting from Curtin University and an EMBA degree from Kellogg Graduate School of Management, Northwestern University and The Hong Kong University of Science and Technology. Mr Lo currently serves as a director of a subsidiary of the Company.

Guo Kaitian, age 50, 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 47, 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 27 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 61, Senior Management Adviser, joined the Company in 2008. He supports and facilitates organisational innovation and leadership development within the Company and its key strategic partners. Mr Yeung also serves as Dean of TencentX, a corporate learning platform that has approximately 500 entrepreneur alumni. Prior to joining the Company, Mr Yeung, as a professor, had taught at University of Michigan and China Europe International Business School and also served as Chief HR Officer of Acer Group from 1998 to 2002. Mr Yeung received a Bachelor's and a Master's degree from The University of Hong Kong and a Doctoral degree from University of Michigan.



Tencent Holdings Limited



Directors' Report

DIRECTORS' SERVICE CONTRACTS

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

None of the directors who are proposed for re-election at the 2023 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' Report

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2022, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

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

Name of director	Nature of interest	Number of Shares/ underlying Shares held	Approximate % of shareholding (Note 8)
Ma Huateng	Corporate (Note 1)	804,859,700	8.41%
Lau Chi Ping Martin	Personal*	53,533,679 (Note 2)	0.56%
Li Dong Sheng	Personal*	45,953 (Note 3)	0.0005%
Ian Charles Stone	Personal* Family ⁺	95,156 240,000 335,156 (Note 4)	0.004%
Yang Siu Shun	Personal*	55,987 (Note 5)	0.0006%
Ke Yang	Personal*	28,419 (Note 6)	0.0003%
Zhang Xiulan	Personal*	6,398 (Note 7)	0.00007%



Tencent Holdings Limited



Directors' Report

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by Mr Ma Huateng, holds 709,859,700 Shares directly and 95,000,000 Shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.
 2. The interest comprises 32,567,826 Shares and 20,965,853 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 24,977 Shares and 20,976 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 293,207 Shares and 41,949 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 18,741 Shares and 37,246 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 9,379 Shares and 19,040 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 6,398 underlying Shares in respect of the Awarded Shares granted pursuant to the 2019 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".
 8. As at 31 December 2022, the total number of issued Shares was 9,568,738,935.
- * Interests of beneficial owner
- + Interests of spouse or child under 18 as beneficial owner





Directors' Report

(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 2022.

CONNECTED TRANSACTIONS

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

The reasons for using Structure Contracts

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

For a summary of the major terms of the Structure Contracts, please refer to the sections headed "Our History and Structure" and "Structure Contracts" in the IPO prospectus. During the year ended 31 December 2022, 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.



Tencent Holdings Limited



Directors' Report

Requirements related to Structure Contracts (other than relevant foreign ownership restrictions) as at 31 December 2022

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

However, the Circular 13 does not provide any interpretation of the term “foreign investors” or make a distinction between foreign online game companies and companies under a corporate structure similar to the Group. Thus, it is unclear whether National Press and Publication Administration (National Copyright Administration) 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.





Directors' Report

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 2022:

Name of the operating companies	Registered owners as at 31 December 2022	Business activities
Tencent Computer	54.29% by Ma Huateng 22.85% by Zhang Zhidong 11.43% by Xu Chenye 11.43% by Chen Yidan	Provision of value-added services and Internet advertisement services in the PRC
Shiji Kaixuan	54.29% by Ma Huateng 22.85% by Zhang Zhidong 11.43% by Xu Chenye 11.43% by Chen Yidan	Provision of Internet advertisement services in the PRC
Wang Dian	Shiji Kaixuan	Provision of value-added services in the PRC
Beijing BIZCOM	Tencent Computer	Provision of value-added services in the PRC
Beijing Starsinhand	Shiji Kaixuan	Provision of value-added services in the PRC
Shenzhen Tencent Tianyou*	Tencent Enterprise Management	Provision of value-added services in the PRC

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

The above OPCOs are significant to the Group as they hold relevant licences to provide Internet information services and other value-added telecommunications services. The aggregate gross revenue and net asset value of the above OPCOs that are subject to the Structure Contracts amounted to approximately RMB279 billion for the year ended 31 December 2022 and approximately RMB45 billion as at 31 December 2022 respectively.

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

The Company's independent non-executive directors had reviewed the Structure Contracts and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts and, had been operated so as to transfer by the date of this annual report the Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) of each of the OPCOs as at 31 December 2022 to Tencent Technology, Cyber Tianjin (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus of the Company), Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network, Guian New Area Tencent Cyber, Cyber Shenzhen, Wuhan Tencent Information and Guangzhou Tencent Computer.



Tencent Holdings Limited



Directors' Report

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

The Auditor had carried out procedures on the transactions conducted pursuant to the Structure Contracts and had provided a letter to the Board confirming that such transactions had been approved by the Board and had been entered into, in all material respects, in accordance with the relevant Structure Contracts and had been operated so as to transfer the Surplus Cash of the OPCOs as at 31 December 2022 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 2022, 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 RMB126,396 million, RMB1,593 million, RMB18,220 million, RMB21,088 million, RMB13,141 million, RMB2,005 million, RMB3,039 million, RMB1,607 million, RMB2,087 million, RMB332 million, RMB1,439 million, RMB61 million, RMB774 million, RMB1,561 million and RMB80 million were paid or payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu, Tencent Shanghai, Tencent Wuhan, Chongqing Tencent Information, Shenzhen Tencent Information, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network, Guian New Area Tencent Cyber, Cyber Shenzhen, Wuhan Tencent Information and Guangzhou Tencent Computer respectively.
2. Pursuant to the SKT CFC, the parties shall co-operate in the provision of communications services. Cyber Tianjin and its affiliates shall allow Shiji Kaixuan to use its and its affiliates' assets and to provide services to Shiji Kaixuan. Shiji Kaixuan shall transfer all of its Surplus Cash to Cyber Tianjin and its affiliates as consideration. The parties also established the SKT Co-operation Committee according to this agreement. During the year, no services were transacted under such arrangements, save as disclosed elsewhere in this section.
3. Pursuant to the amended and restated IP transfer agreement dated 28 February 2004 entered into between Tencent Technology and Tencent Computer, Tencent Computer shall assign to Tencent Technology its principal present and future IP rights, free from encumbrances (except for licences granted in the ordinary course of Tencent Computer's business) in consideration of Tencent Technology's undertaking to provide certain technology and information services to Tencent Computer. During the year, no IP transfer was transacted under such arrangements, save as disclosed elsewhere in this section.





Directors' Report

4. Pursuant to the IP transfer agreement dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan, Shiji Kaixuan shall assign to Cyber Tianjin its principal present and future IP rights, free from encumbrance (except for licences granted in the ordinary course of Shiji Kaixuan's business) in consideration of Cyber Tianjin's undertaking to provide certain technology and information services to Shiji Kaixuan. During the year, no IP transfer was transacted under such arrangements, save as disclosed elsewhere in this section.
5. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive licence to use specified domain names against payment of annual royalties determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no domain name licence was transacted under such arrangements, save as disclosed elsewhere in this section.
6. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant to Shiji Kaixuan a non-exclusive licence to use specified domain names against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no domain name licence was transacted under such arrangements, save as disclosed elsewhere in this section.
7. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Tencent Computer's annual revenues (which may be adjusted pursuant to the agreement or the TCS CFC). During the year, no trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.
8. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant to Shiji Kaixuan a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.



Tencent Holdings Limited



Directors' Report

9. Pursuant to the information consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Tencent Computer, Tencent Technology shall provide specified information consultancy services to Tencent Computer against payment of an annual consultancy service fee determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.
10. Pursuant to the technical consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Shiji Kaixuan, Tencent Technology shall provide specified technical consultancy services to Shiji Kaixuan against payment of an annual consultancy service fee determined by the SKT Co-operation Committee within a range of percentages of Shiji Kaixuan's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.
11. Pursuant to the co-operation framework agreement entered into between each of the New OPCOs and one of the WFOEs, the parties shall cooperate in the provision of communications services. For each agreement, the WFOEs shall allow the New OPCOs to use its and its affiliates' assets and provide services to the New OPCOs. The New OPCOs shall transfer all of its Surplus Cash to the WFOEs and its affiliates as consideration. Co-operation committees have also been established according to these agreements. During the year, (i) revenue sharing amounting to approximately RMB0.422 million, RMB0.066 million and RMB17 million was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively; (ii) revenue sharing amounting to approximately RMB0.48 million, RMB3 million and RMB75 million was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin and Shenzhen Tencent Information respectively; (iii) revenue sharing amounting to approximately RMB0.299 million and RMB0.129 million was paid or payable by Beijing Starsinhand to Cyber Tianjin and Tencent Beijing respectively; (iv) revenue sharing amounting to approximately RMB19,110 million, RMB230 million, RMB21 million, RMB28,114 million, RMB2,130 million, RMB75 million, RMB38 million and RMB713 million was paid or payable by Shenzhen Tencent Tianyou to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chendgu, Tencent Shanghai, Tencent Wuhan, Hainan Network and Shenzhen Tencent Network respectively.





Directors' Report

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

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

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

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

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

Other connected transactions

The Group entered into certain transactions with "related parties" as defined under applicable accounting standards during the financial year ended 31 December 2022 which were disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 26 (Loans to investees and investees' shareholders), Note 35 (Share-based payments) and Note 45 (Related party transactions) to the consolidated financial statements. Save as the related parties transactions involving payment of remuneration to certain directors of the Group which constitute continuing connected transactions fully exempt from the connected transaction requirements under Rule 14A.76(1) or Rule 14A.95 of the Listing Rules, no related parties transactions disclosed in the consolidated financial statements constitutes a connected transaction as defined under Chapter 14A of the Listing Rules.



Tencent Holdings Limited



Directors' Report

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, the following persons, other than the directors or chief executive of the Company, had interests or short positions in the Shares or underlying Shares 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:

Long/ short position in the shares of the Company

Name of shareholder	Long/ short position	Nature of interest/ capacity	Number of Shares/ underlying Shares held	Approximate % of shareholding (Note 3)
MIH Internet Holdings B.V.	Long position	Corporate (Note 1)	2,577,168,400	26.93%
Advance Data Services Limited	Long position	Corporate (Note 2)	804,859,700	8.41%

Note:

1. MIH Internet Holdings B.V. is controlled by Naspers Limited and held through its non wholly-owned subsidiary, Prosus N.V. MIH Internet Holdings B.V. is a wholly-owned subsidiary of Prosus N.V. As such, Naspers Limited, Prosus N.V. and MIH Internet Holdings B.V. are deemed to be interested in the same block of 2,577,168,400 Shares under Part XV of the SFO.
2. Advance Data Services Limited holds 709,859,700 Shares directly and 95,000,000 Shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. As Advance Data Services Limited is wholly-owned by Mr Ma Huateng, Mr Ma has an interest in these Shares as disclosed under the section of "Directors' Interests in Securities".
3. As at 31 December 2022, the total number of issued Shares was 9,568,738,935.

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 2022, had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO.





Directors' Report

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 2022, the five largest customers of the Group accounted for approximately 7.15% of the Group's total revenues while the largest customer of the Group accounted for approximately 3.56% of the Group's total revenues. In addition, for the year ended 31 December 2022, the five largest suppliers of the Group accounted for approximately 20.8% of the Group's total purchases while the largest supplier of the Group accounted for approximately 7.38% 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) 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 2022. 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 "Environmental Protection" in the standalone "Environmental, Social and Governance 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.



Tencent Holdings Limited



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 2022, the Group had 108,436 employees (2021: 112,771). 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 2022 was RMB111,182 million (2021: RMB95,523 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.





Directors' Report

CLOSURE OF REGISTER OF MEMBERS

(A) Entitlement to Attend and Vote at the 2023 AGM

For the purpose of determining the shareholders' entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Friday, 12 May 2023 to Wednesday, 17 May 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the 2023 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, 11 May 2023.

(B) Entitlement to the Proposed Final Dividend

For the purpose of determining the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 23 May 2023 to Wednesday, 24 May 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 22 May 2023.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2023 AGM.

On behalf of the Board

Ma Huateng

Chairman

Hong Kong, 22 March 2023



Tencent Holdings Limited



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 2022, the Company complied with the applicable code provisions set out in the CG Code, except for the deviation from code provisions B.2.2 regarding the retirement and re-election of directors and C.2.1 regarding the segregation of the roles of chairman and chief executive. The reasons for the deviations are further explained in the sub-sections headed "Chairman and Chief Executive Officer" and "Appointments, Re-election and Removal" below.

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

BOARD OF DIRECTORS

Responsibilities

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

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

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





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 directors' selection, orientation and evaluation;
- ensures that the Group has appropriate risk management, internal control, internal audit and regulatory compliance procedures in place and that it communicates adequately with shareholders and stakeholders;
- establishes Board committees with clear terms of reference and responsibilities as appropriate;
- defines levels of delegation in respect of specific matters, with required authority to Board committees and management;
- monitors non-financial aspects pertaining to the businesses of the Group;
- considers and, if appropriate, declares the payment of dividends to shareholders; and
- regularly evaluates its own performance and effectiveness.

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

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



Tencent Holdings Limited



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





Corporate Governance Report

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;
- ensures that no director or any of his associates is involved in deciding his own remuneration; and
- reviews and approves matters relating to share schemes under Chapter 17 of the Listing Rules.

The terms of reference of the Remuneration Committee were revised and adopted in January 2023 taking into account the roles and responsibilities of the Remuneration Committee set out under the new requirements in Chapter 17 of the Listing Rules which took effect in January 2023.

The major work of these committees during the year 2022 is set out on pages 99 to 106.



Tencent Holdings Limited



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 2022, 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 2022:

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

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

² Professor Zhang Xiulan has been appointed as an independent non-executive director of the Company with effect from 18 August 2022.





Corporate Governance Report

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

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

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

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

Chairman and Chief Executive Officer

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

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



Tencent Holdings Limited



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 2022, 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 2022 and up to the date of this annual report, there is no change to the composition of the Board except that Professor Zhang Xiulan has been appointed as an independent non-executive director with effect from 18 August 2022.

A list of directors and their respective biographies which include their positions held at the Company and certain subsidiaries are set out on pages 67 to 71 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

In order to take advantage of the skills, experiences and diversity of perspectives of the directors and in order to ensure that the directors give sufficient time and attention to the Group's affairs, we request each director 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.





Corporate Governance Report

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

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

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

Appointments, Re-election and Removal

The Board is the core of the Group's success, and with the appropriate composition of the Board, we can benefit from the right set of skills, experience and diversity of perspectives to take the Company forward. Therefore, it is essential for the Company to maintain a formal, considered and transparent procedure for the appointment of new directors to the Board. It is our corporate governance practice and in accordance with the Articles of Association that all directors (except for the Chairman) should be subject to re-election at regular intervals and the resignation and removal of any director should be explained with reasons. At the 2022 annual general meeting ("2022 AGM"), Messrs Li Dong Sheng and Ian Charles Stone retired and were re-elected.

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



Tencent Holdings Limited



Corporate Governance Report

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

As the re-election of Mr Jacobus Petrus (Koos) Bekker, who was re-elected in 2019, was not considered at the 2022 AGM, there is a deviation from code provision B.2.2 of the CG Code. Notwithstanding that Mr Jacobus Petrus (Koos) Bekker was not subject to retirement by rotation at the 2022 AGM, his biography and details of his emoluments are set out in the Directors' Report and Note 14 to the consolidated financial statements respectively for shareholders' information. Considering that the re-election of Mr Jacobus Petrus (Koos) Bekker will be considered at the 2023 AGM, the Board believes that such deviation does not have a material impact on the operation of the Company as a whole.

Board Activity

The Board met five times in 2022. The attendance of each director at Board meetings, committee meetings, the annual general meeting and the extraordinary general meeting, whether in person or by means of electronic communication, is detailed in the table below:

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

* Professor Zhang Xiulan has been appointed as an independent non-executive director of the Company with effect from 18 August 2022.





Corporate Governance Report

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

The company secretary ensures that there is a good and timely flow of information to the Board. The company secretary is responsible for taking minutes of all Board and committee meetings and ensuring that sufficient details of the matters considered and decisions reached have been recorded. Draft and final versions 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.



Tencent Holdings Limited



Corporate Governance Report

Audit Committee

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

The Audit Committee meets not less than four times a year; the Audit Committee met eight times in 2022. Individual attendance of each Audit Committee member is set out on page 97. In addition to the members of the Audit Committee, meetings were attended by the Chief Financial Officer, the Financial Controller, the Treasurer, 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 2022 includes the following:

- reviewing the 2021 annual report, including the Corporate Governance Report, the ESG Report, the Directors' Report and the financial statements, as well as the related results announcement;
- reviewing the 2022 interim report and interim results announcement;
- reviewing the 2022 first and third quarters results announcements;
- reviewing the status of compliance with the CG Code, the Listing Rules and relevant laws by the Group;
- reviewing the dividend policy of the Company;
- in relation to the external auditor, reviewing their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement;
- reviewing the plans (including those for 2022), resources and work of the Company's internal auditors;
- reviewing the adequacy of resources, qualifications and training of the Group's finance department;
- 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; and
- reviewing and approving the declaration of interim dividend by way of distribution in specie of Meituan Shares.

PricewaterhouseCoopers ("PwC") is the Company's external auditor. The Audit Committee annually reviews the relationship of the Company with PwC. Having 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 2023 AGM.





Corporate Governance Report

Corporate Governance Committee

The Corporate Governance Committee comprises only non-executive directors. Its members are Mr Charles St Leger Searle (non-executive director), Mr Ian Charles Stone, Mr Yang Siu Shun, Professor Ke Yang and Professor Zhang Xiulan (appointed as a member of the Corporate Governance Committee with effect from 18 August 2022) (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 2022. Individual attendance of each Corporate Governance Committee member is set out on page 97.

The Corporate Governance Committee's major work during the year 2022 and up to the date of this annual report includes the following:

- reviewing the Company's policies and practices on corporate governance and ESG;
- reviewing legal and regulatory compliance, including the insider dealing policy, the disclosure of inside information policy and the shareholders communication policy. The insider dealing policy and the shareholders communication policy were revised and adopted in March 2022. The insider dealing policy was further revised and adopted in March 2023;
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;
- reviewing the Company's compliance with the ESG Reporting Guide and disclosure in the ESG Report;
- considering the Company's environmental targets; and
- discussing the arrangements made for directors and senior management team to attend training sessions for continuous professional development.



Tencent Holdings Limited



Corporate Governance Report

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 (non-executive director). The Investment Committee is chaired by Mr Lau Chi Ping Martin.

In 2022, the Investment Committee had considered and passed various resolutions on its decisions on the Group's acquisitions and disposals.

Nomination Committee

The Nomination Committee comprises a majority of independent non-executive directors. Its members are Mr Ma Huateng, Mr Li Dong Sheng, Mr Ian Charles Stone, Mr Yang Siu Shun (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 2022. Individual attendance of each Nomination Committee member is set out on page 97.

During 2022, 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 2022 AGM. The board diversity policy had been revised and adopted in compliance with the CG Code. 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.





Corporate Governance Report

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

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

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

- (a) the Company's prevailing board diversity policy and the requirements under the Listing Rules;
- (b) the independence of the independent non-executive directors and the independence criteria set out in Rule 3.13 of the Listing Rules;
- (c) potential or actual conflicts of interest of the candidate or the re-elected director;
- (d) the expected contribution that the candidate would add to the Board and to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business;
- (e) the candidate or the re-elected director's reputation for integrity, accomplishment and experience in the relevant sectors;
- (f) the candidate or the re-elected director's ability to commit and devote sufficient time and attention to the Company's affairs; and
- (g) other relevant factors which will be considered by the Nomination Committee on a case-by-case basis.

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



Tencent Holdings Limited



Corporate Governance Report

Nomination Procedure by Nomination Committee

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

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

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

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

Monitoring, Reporting and Review

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





Corporate Governance Report

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 and the Board would ensure that appropriate balance of gender diversity is achieved with reference to the expectation of shareholders as well as international and local recommended best practices. Following the appointment of one female director in 2022, the female representation of the Board was increased to above 20%. The Board has achieved gender diversity and targets to reach 30% female representation of the Board by 2030.

As at 31 December 2022, our workforce (inclusive of permanent employees and other employees who are engaged in direct employment relationships with the Company only) consisted of 43,693 male employees and 17,635 female employees, representing approximately 71.2% and 28.8% of the total workforce, respectively. While all members of our senior management are male, approximately 24.5% of the managerial positions of the Company were held by female employees as at 31 December 2022. In March 2023, the Company released "Our Commitment to Diversity, Equity and Inclusion", declaring its plan to integrate diversity, equity and inclusion ("DEI") into its workplace culture and daily operations, and gradually achieve the DEI goals. The Company regularly reviews the DEI implementation progress and will continue to enhance diversity in different levels of workforce. For further details regarding the gender diversity of our workforce (including the gender ratio), please refer to the sections headed "Implementing Diversity, Equity, and Inclusion" and "ESG Key Performance Tables" in the ESG Report.

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.



Tencent Holdings Limited



Corporate Governance Report

Independent Views

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

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

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

The Board had reviewed the implementation and effectiveness of the above mechanisms during the year 2022.

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.





Corporate Governance Report

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 2022. Individual attendance of each Remuneration Committee member is set out on page 97.

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 2022 includes the following:

- reviewing and recommending to the Board in respect of the remuneration policies and structure of the Company by benchmarking peer companies with a similar scale to ensure that the Company's remuneration packages are competitive to recruit the best talents in the industry and to retain key staff;
- reviewing and recommending to the Board on the remuneration packages for the directors;
- assessing performance and, reviewing and approving adjustments to the remuneration packages for the members of the senior management team;
- reviewing and approving compensation awards granted to senior management team, recognising their contributions to the Company and providing incentives for future performances;
- reviewing and approving (a) the grant of options under the Post-IPO Option Scheme IV and the grants of share awards under the 2013 Share Award Scheme and the 2019 Share Award Scheme, respectively, where all such grants were made prior to the amendments of Chapter 17 of the Listing Rules taking effect in January 2023; (b) the adjustment to the exercise prices of the outstanding share options under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV as a result of the distribution in specie of JD.com Shares; and (c) the adjustment to the number of unvested restricted shares under the 2013 Share Award Scheme and the 2019 Share Award Scheme as a result of the distribution in specie of JD.com Shares; and
- reviewing and recommending to the Board on the adoption of and amendments to the share incentive schemes of certain subsidiaries of the Company.



Tencent Holdings Limited



Corporate Governance Report

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/her associates was involved in determining his/her own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned with the market practice and conditions, the Company's goals and strategies. The remuneration awards are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles. For further details of emoluments of the senior management by band, please refer to Note 13 to the consolidated financial statements.

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

ACCOUNTS, RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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





Corporate Governance Report

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

First Line of Defence – Operation and Management

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

Second Line of Defence – Risk Management

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

Third Line of Defence – Independent Assurance

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

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

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

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

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



Tencent Holdings Limited



Corporate Governance Report

The Board and management have always prioritised the maintenance and establishment of the Company's risk management and internal control systems. In 2022, the Company has consistently improved the risk management and internal control systems, and has also continuously increased the awareness of risk management among the employees. The internal control function continues to get involved early in the front line of the business and proactively support the business groups in identifying and managing the risks and enhancing risk management and internal controls in a more comprehensive and timely manner, to ensure the healthy development of business. The IA continues to carry out independent audit over various key businesses and management areas, and improves digital audit capability to effectively identify risks and provide effective and timely evaluations. The Anti-fraud Investigation Department further advocates the value of integrity among the employees, actively follows up and investigates 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 its structure, process, and culture. By enhancing the Company's risk management capabilities, it ensures the healthy and sustainable development of the Company's business.

The Company has established a risk management system (including the "Three Lines of Defence" 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;
- Through collecting, consolidating and analysing the Company's businesses, the IC builds a list of significant risks at both the corporate and business level, and ensures that appropriate risk response strategies and control measures have been taken 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





Corporate Governance Report

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

Significant Risks of the Company

The complexity of the Company's business continues to increase and the external environment continues to evolve. Facing a wide range of significant risks, including but not limited to ESG risk, and through risk management analysis and evaluation, management considers that the ten significant risks disclosed in the financial year 2021 still exist, in which the "Market competition and innovation risk" has increased to a certain extent while the other risks remain at a similar risk level as last year.

On behalf of the Board, the Audit Committee supervises the overall risk management of the Company and assesses the change in the nature and severity of the Company's significant 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 global regulations and laws relating to the Internet and technology industry have become clearer. As the Company continuously expands its businesses domestically and globally, the Company must abide by and comply with the relevant applicable laws and regulations in different countries and jurisdictions, including but not limited to laws and regulations relating to privacy and data protection, anti-trust, anti-unfair competition, IP, telecommunications and Internet, gaming, Internet finance, labour protection, foreign investment, international trade, etc. In addition, changes in international circumstances may affect the development of global policies and regulations and impact the development of various industries across different regions.

The Company has taken practical steps to devote substantial resources in various areas to ensure the Company's compliance with regulatory requirements. The Company has set up dedicated compliance departments and compliance specialist teams, engaged external professional consultants to communicate with relevant regulatory authorities in a timely manner, kept abreast of the changes to relevant laws and regulations, adjusted strategies accordingly, taken appropriate actions or measures, improved internal training and the understanding of the laws and regulations, and enhanced the corresponding management system to ensure that the Company is in compliance with such applicable laws and regulations.



Tencent Holdings Limited



Corporate Governance Report

2. *Market competition and innovation risk*

The Internet and technology industries are highly competitive with rapid product updates and replacements, and competition of AI-related technology also draws a lot of attention. The development of technologies brings evolutionary changes to the existing business models and brings in more new players into the market. The existing market competition landscape may face major changes. Therefore, how to promote innovative and sustainable social values through innovation in technology, product and business model are the key challenges of the Company.

The Company attaches great importance to innovation and stays on top of the developments of the industry and user needs, keeps up with the technological development through innovation in frontier technology, and constantly improves the Company's products and services. It also explores the application scenarios of emerging technologies and brings additional values and experiences to its users and business partners. The Company enhances its innovation capabilities by constantly optimising its organisational structure, attracting and nurturing more talents, and increasing its investments in more research and development. The Company also continuously optimises its resource allocation, enhances its core business products, strengthens its product development and technical capabilities, explores innovative business models, develops products that meet the expectations of both domestic and international markets, continuously improves user experience, promotes sustainable development of its businesses and increases its market competitiveness. The Company collaborates with its partners to jointly innovate, enhance service capabilities, and support the ecosystem in order to achieve product service growth and continuous iterative innovation, and create value for users and the society.

3. *Macroeconomic risk*

The Company's revenue generated from certain businesses is closely related to the macro-economic circumstances and the overall consumption economy. As the Company continues to expand its international businesses, factors such as the ever-changing international circumstances, the difference in the speed of economic development across regions, emergencies such as epidemic may reduce individual users' purchasing power and their willingness to consume, impacting the operation and profits of our corporate clients, and thereby leading to a reduction in the resources they invest in market and business development, which may in turn adversely affect certain revenue streams of the Company. Recently, despite the uncertainties resulting from the domestic economic circumstances and the easing of epidemic, they may still lead to changes in trading and investment policies and markets, which may negatively impact on the Company's operations and collaborations with its business partners, and in turn affect and weaken the Company's competitiveness and growth potential.

Based on the change in macroeconomic environment, the Company adjusts its business development strategy in a scientific, flexible, and reasonable manner to address the risks posed by the macroeconomic risks, and continuously seeks opportunities for business growth. The Company attaches great importance to product innovation, upholds the business philosophy of focusing on user value, continuously improves user experience, and builds long-term and stable relationships with its existing customers to achieve sustainable business growth. Meanwhile, the Company will continue to uphold its mission and vision of "Value for Users, Tech for Good" to provide innovative product solutions and digital services to assist its clients and business partners in further enhancing their competitiveness and productivity to achieve sustainable growth, and to also create value for its customers and business partners, and fulfill its social responsibility.





Corporate Governance Report

4. *Information security risk*

All countries and jurisdictions continue to heighten the regulatory enforcement over cyber security and personal data protection. The security of personal user and corporate client data is the top priority of the Company. The Company continues to pay attention to the laws and policies relating to user privacy and data security 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 clients, which could expose the Company to significant legal liability and significant reputational risk.

The Company strongly believes that the security of user data and privacy is the key prerequisite for delivering secured and high-quality products and user experience. The Company strictly complies with relevant laws and regulations, continuously invests resources in strengthening information security management. The Company classified user and client data as the Company's most sensitive information. It has also established and will continue to enhance the policies and management measures to ensure the security of such information and data, including but not limited to establishing effective information management systems, with the use of encryption, data access restrictions and controls, and the establishment of rigorous approval processes. In addition, the Company has established a specialised team to conduct independent regular reviews over the management of the business groups' sensitive information and data, and provide trainings on information security to raise the awareness of information security amongst its staff. The Company upholds the mission and vision of "Value for Users, Tech for Good" and constantly improves the infrastructure of its network and data security.

5. *Crisis management, public relations and reputational risk*

As an Internet and technology company, the Company has a diverse portfolio of businesses and products with increasingly complicated business models, and an extensive network of users and business partners, which draws attention from the public and media to the Company's brand. The Company needs to fully consider possible crisis that may occur in its domestic and international business operations, and actively responds to them to avoid further deepening of issues or escalation of crisis. The Company also needs to timely disclose comprehensive and accurate information to the public. Otherwise, it may damage the Company's reputation, brand and image, and may adversely affect the business and prospects of the Company.

The Company treasures its brand and reputation. In adherence to the principles of openness and transparency, the Company communicates to the public comprehensive and accurate information in a timely manner. In response to crisis, the Company has established a corresponding response mechanism, to follow up on the development of crisis, conduct risk assessment, and make prompt decisions in a timely manner, to reduce the impact of the crisis on the Company. The Company has also set up professional public relations department and teams to establish and continuously enhance its crisis management mechanism, to provide trainings and guidance related to crisis management, to continuously improve its crisis response capabilities, and to reduce the possibility of crisis. The public relations team maintains close contact with the Company's management and business teams, pays close attention to and gathers public opinions, analyses relevant information in a timely manner and reports to management to enable management to respond promptly and effectively in accordance with the Company's policies and procedures and disclose comprehensive and accurate information to the public in a timely manner and to continuously protect the Company's reputation.



Tencent Holdings Limited



Corporate Governance Report

6. *M&A and investment management risk*

The Company has a diversified investment portfolio. The complex and ever-changing international relations and heightened domestic and foreign regulatory policies have imposed higher requirements over the formulation of investment strategies, fund management, pre-investment evaluation and post-investment management. Failure to timely and effectively manage investment risks could hinder the realisation of investment strategies and lead to probable financial loss of the Company.

The Company pays a lot of attention to investment risk and has established an Investment Committee under the Board. The Company also puts in place an investment evaluation and approval process, and sets up a dedicated professional team to advise on investment projects. Finance, legal and other relevant professional teams are responsible for managing relevant investment risks and following up with post-investment management, reviewing the operating and financial information of the investee companies on a regular basis, monitoring and analysing the performance of the investee companies, to ensure that they continue to meet the Company's investment strategies. The Company will continuously monitor the trend of the macroeconomic environment and the changes in the laws and regulations of various industries, conduct dynamic analysis and develop strategy for risk management to effectively manage the investment risks.

7. *ToB business risk*

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

The Company continues to accumulate and solidify its experience in the ToB business, actively follow up and analyse the development trends and changes in customer needs of different industries in both the domestic and foreign markets. The Company continues to expand its footprints in various industries including social services, cultural and tourism, industrial, agricultural, transportation, energy, retail, financial services, by leveraging technological innovations such as cloud computing and AI technologies to create the smart industry upgrade solutions, and to build a new, intelligent ecosystem that connects consumers and business enterprises.

The Company continues to optimise the management of its resource allocation, organisational structure, human resources, management systems, business processes, internal control, etc., strengthen its product development, and improve the efficiency of external collaboration, to ensure the sustainable development of ToB business. Concurrently, through continuous technological innovation, the Company continues to enhance its ability to serve corporate clients and to promote the integrated development of both digital and real economies to create more value to the society.





Corporate Governance Report

8. *Business continuity risk*

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

The Company continues to invest in its network infrastructure to enhance its established business recovery mechanism, to strengthen the stability of its domestic and international product services and business operations, to safeguard network security and to provide consistent support to business development. The Company has also established dedicated teams to develop contingency plans in relation to business continuity and perform regular drills. All business units also actively implement various emergency measures to ensure the smooth operation of business. In addition, the Company has established an independent dedicated team to perform regular checks on the effectiveness of the relevant emergency mechanisms and measures, and the performance of regular drills and its results.

9. *Social responsibility and environmental sustainability risk*

International organisations, regulators and the capital markets have formed a consensus that ESG performance is an important standard to evaluate the non-financial performance of corporates. ESG performance will affect the valuation as determined by the shareholders and other stakeholders, which may lead to certain impacts for the Company.

The Company has established an ESG team to conduct a comprehensive evaluation, manage and enhance our ESG performance, and make annual disclosures in accordance with compliance requirements and international standards. Please refer to the "ESG Report" published by the Company for details.

The Company upholds its vision and mission of "Value for Users, Tech for Good", and constantly reviews its products and platforms from the perspective of social responsibility and incorporated "Sustainable Innovations for Social Value" into its core strategy as part of its strategic upgrade in 2021. The Company actively commits to undertaking social responsibility and promotes social and environmental sustainability with the use of its core technology, products and services capabilities.



Tencent Holdings Limited



Corporate Governance Report

The Company takes equal emphasis on technology innovation and industrial development, continuously enhances its core capabilities such as cloud computing, AI, big data, cybersecurity, etc., promotes industry collaboration, builds an open ecosystem, supports the transformation of various industries including healthcare, transportation, tourism, retail, and energy, etc., enhances its digital capabilities in supporting employment and entrepreneurship opportunities, and facilitates the development of digital economy comprehensively. By utilizing the core competencies of an Internet company, the Company has built a digital application toolkit, promoted the modernization of rural governance system and governance capabilities through various projects such as the “Cultivator” Revitalization Plan, promoted the driving role of digitalization in rural revitalization, and drove and improved the rural development as a whole by implementing digital technology in rural revitalization.

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

In 2018, the Company and several other renowned scientists established the “Xplorer Prize” and have continued to provide funding, to encourage talented young scientists to study and conduct scientific research of cutting-edge technologies and fundamental sciences. The Company also announced the establishment of the “New Cornerstone Science Foundation” in 2022 and committed to invest RMB10 billion to support the basic research of outstanding scientists in the next ten years.

Regarding the protection of Minors, the Company has established “Parental Guardian Platform” and “Healthy Gameplay System” to prevent Minors from being addicted to games, and continued to build a protective ecosystem for Minors on the Internet. In relation to public emergencies, the Company has established a public emergency platform, and promoted the implementation of the platform in various applications; and through the donation of emergency equipment, provision of first-aid technical knowledge and cultivation of first-aid awareness, improved the capabilities of handling public emergencies in the society. In respect of the supports to elderly and disabled, the Company integrated multiple technologies to develop the “Invisible Caregivers” digital product to safeguard the safety of the elderly. Moreover, the Company contributed to the construction of an information barrier-free society by implementing the Teana AI technology to improve the hearing experience of the hearing-impaired. The Company has also implemented digital technology to realise innovative applications in the field of cultural protection through the launch of various projects such as the “Great wall e-tour” and “Digital Beijing Central Axis” to promote cultural inheritance.

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





Corporate Governance Report

10. Fraud risk

In recent years, fraudulent activities have occurred frequently in the Internet and technology industry and therefore integrity has been an important concern. As the business continues to develop, and the form and complexity continues to evolve, it is inevitable that the Company faces a higher level of fraud risk. For example, fraudulent activities caused by collusion between suppliers/business partners and employees can have a negative impact on the reputation and financial position of the Company.

The Company always adheres to 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 them. 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. With regard to employees, the Company has established the Sunshine Code, continuously optimises the relevant requirements, and requires all employees to pass the annual examination on the Sunshine Code and strictly comply with the code during their employment and in the course of 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 build a healthy and transparent environment for business. Furthermore, the Company has set up an Anti-fraud Investigation Department for years to receive whistleblowing reports from various channels, and to follow up and investigate alleged fraudulent cases in a timely manner. Once an employee is found and proven to be fraudulent, he/she will be dismissed immediately. The Company may also transfer the more serious cases to the judiciaries or initiate legal proceeding according to national laws and regulations. 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 the criminal cases and serious abuse-of-power cases that were investigated and handled by the Company via the "Sunshine Tencent" WeChat official platform. This shows the Company's determination to fight against corruption and fraud, as well as its commitment towards creating a virtuous and honest atmosphere within the Company and the industry.



Tencent Holdings Limited



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 each party. Policies and procedures are in place for the key business processes. This information is clearly conveyed to employees in practice and emphasised the importance of the internal control systems. All employees must strictly follow the policies which cover, amongst other things, financial, legal and operational issues that set the control standards for the management of each business process.

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

In addition, the IC supervises the establishment of the risk management and internal control systems set up by management, ensures that management has implemented appropriate measures to resolve material internal control defects 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.





Corporate Governance Report

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 2022, the risk management and internal control systems of the Company are effective and adequate.

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

SHAREHOLDERS

To enable shareholders and other stakeholders to exercise their rights in an informed manner based on a good understanding of the Group's operations, businesses and financial information, the Company adopted the shareholders communication policy which aims to ensure that shareholders and other stakeholders at large are provided with ready, equal, regular and timely access to material information about the Group. The policy also sets out a number of ways to ensure effective and efficient communication with shareholders and other stakeholders is achieved, including but not limited to our quarterly results announcements, webcasts, responses to shareholders' enquiries, corporate communications (in both English and Chinese, to facilitate shareholders' understanding), posting of relevant information on the Company Website, shareholders' meetings and investment market communications. For shareholders to communicate their views on various matters affecting the Company and the Company to solicit and understand the views of shareholders and other stakeholders, the Company adopts a number of mechanisms, including encouraging shareholders to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings and making appropriate arrangements for the annual general meetings to encourage and facilitate shareholders' participation. To facilitate communication between the Company, shareholders and the investor community, investor and analyst briefings, one-on-one meetings, domestic and international roadshows, media interviews and specialist industry forums are organised on a regular basis and are attended by our directors and designated spokespersons. In addition, the Company Website has been adopted as the designated hub for publication of the Company's announcements, press releases and other corporate communications including the shareholders communication policy and the investor calendar which highlights important dates for shareholders' information. During the year 2022, the Corporate Governance Committee reviewed the implementation and effectiveness of the shareholders communication policy, including the multiple communication channels for shareholders in place and the steps taken to handle shareholders' enquiries, and considered that the shareholders communication policy has been properly implemented and effective.



Tencent Holdings Limited



Corporate Governance Report

The dividend policy of the Company is also set out in the “Corporate Governance Report” on page 120 of this annual report and the historical information of dividend payout is available on the “Interactive Share Price Chart & Dividend History” section on the Company Website.

The Company also encourages shareholders’ active participation in annual general meetings and other general meetings. Notices to shareholders for annual general meetings are sent to shareholders at least 21 clear days before the meetings and at least 14 clear days for all other general meetings to allow sufficient time for their consideration of the proposed resolutions. The Company’s shareholders communication policy also requires appropriate arrangements to be put in place for the annual general meetings to encourage and facilitate shareholders’ participation, and the process of the meetings is monitored and reviewed on a regular basis to ensure that shareholders’ needs are best served.

The Company’s general meetings provide a transparent and open platform for the Company’s shareholders to communicate with the Board and the senior management team. The Chairman, other members of the Board and relevant members of the senior management team, under normal circumstances, attend to answer questions raised and discuss matters in relation to the Company in an open manner. All directors attended the 2022 AGM and the extraordinary general meeting held on 18 May 2022 (“2022 EGM”), with a view to understanding the views of the Company’s shareholders. The company secretary provided the minutes of the 2022 AGM and the 2022 EGM to all directors to have a thorough understanding of the views of the Company’s shareholders. The Company’s external auditor will also attend the annual general meeting to answer questions relating to the conduct of the audit, the auditor’s report and auditor independence.

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





Corporate Governance Report

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

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

DIVIDEND POLICY

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

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

DISCLOSURE OF OTHER INFORMATION

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

The Third Amended and Restated Memorandum and Articles of Association

Upon the shareholders' approval by way of special resolution at the 2022 AGM, the Company has adopted the Third Amended and Restated Memorandum and Articles of Association for the purpose of, among others, reflecting the core shareholder protection standards as set out in the revised Appendix 3 to the Listing Rules which took effect on 1 January 2022.



Tencent Holdings Limited



Corporate Governance Report

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code. The Company has also adopted an insider dealing policy to govern and regulate securities transactions by employees who are likely to be in possession of inside information relating to the Company, the terms of which are no less exacting than those of the Model Code. The Company has made specific enquiries with the directors and the directors have confirmed they have complied with the Model Code throughout 2022.

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 122 to 130. During the year ended 31 December 2022, the remuneration paid/payable to the Company's external auditor, PwC, was disclosed in Note 8 to the consolidated financial statements. The audit and audit-related services conducted by the external auditor mainly comprise of statutory audits and reviews for the Group and its certain subsidiaries. The non-audit services conducted by the external auditor mainly include tax advisory services for our M&A and other corporate transactions, due diligence services and other services such as ESG assurance service and services relating to risk management and internal control review. Please refer to Note 8 to the financial statements for a breakdown of the fees paid for the key non-audit services.

Framework for Disclosure of Inside Information

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

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





Independent Auditor's Report

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 131 to 275, comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, 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 Level 3 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





Independent Auditor's Report

Key Audit Matter

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

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

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

During the year ended 31 December 2022, majority of the Group's revenue from value-added services was contributed by online games and was predominately derived from the sales of virtual items.

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

How our audit addressed the Key Audit Matter

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

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

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

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





Independent Auditor's Report

Key Audit Matter

Impairment assessments of goodwill, investments in associates and joint ventures

Refer to Notes 2.12(a), 2.14, 4(b), 20, 21 and 22 to the consolidated financial statements

As at 31 December 2022, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB116,731 million, RMB246,043 million and RMB6,672 million, respectively. Impairment of RMB8,826 million, RMB25,689 million and RMB3 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 2022.

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 assessment approaches, i.e. fair value less costs of disposal and 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 indicators evaluation as to whether indicators of impairment exist by corroborating with management and market information.

We also tested, on a sample basis, key controls in respect of the impairment assessments, including the determination of appropriate impairment approaches, valuation models and assumptions and the calculation of impairment provisions, where we found no material exceptions.

Management adopted different valuation models, on a case by case basis, in carrying out the impairment assessments, mainly including discounted cash flows and market approach. We assessed, on a sample basis, the basis management used to monitor separate groups of cash generating units that contain goodwill, the impairment assessment approaches and the valuation models used in management's impairment assessments, which we found to be appropriate.





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 discounted cash flows, we assessed the key assumptions adopted including revenue growth rates, terminal growth rates, discount rates and other assumptions by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable industry/business data external to the Group. We assessed certain of these key assumptions with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management were in line with our expectations and evidences obtained.

In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using market approach, we assessed the valuation assumptions including the selection of comparable companies, recent market transactions, and liquidity discount for lack of marketability, etc. We assessed these key assumptions adopted by management with the involvement of our internal valuation experts based on our industry knowledge and independent research performed by us. We considered that the key assumptions adopted by management were in line with our expectations and evidences obtained.

We independently tested, on a sample basis, the accuracy of mathematical calculations applied in the valuation models and the calculation of impairment charges.

We found that the valuation models were acceptable, and the key assumptions made by management were supported by available evidence.





Independent Auditor's Report

Key Audit Matter

Fair value measurement of Level 3 financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities

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

As at 31 December 2022, 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 RMB234,048 million, RMB185,247 million and RMB3,307 million, respectively, of which approximately RMB215,843 million of these financial assets and approximately RMB3,298 million of these financial liabilities were measured based on significant unobservable inputs and classified as "Level 3 financial instruments".

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

How our audit addressed the Key Audit Matter

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

We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested, on a sample basis, valuation of Level 3 financial instruments as at 31 December 2022 by evaluating the underlying assumptions and inputs including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) as well as underlying supporting documentation. We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. We found that the valuation methodology of Level 3 financial instruments was acceptable and the assumptions made by management were supported by available evidence.





Independent Auditor's Report

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.





Independent Auditor's Report

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wilson W.Y. Chow.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22 March 2023





Consolidated Income Statement

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB'Million	2021 RMB'Million
Revenues			
Value-added Services		287,565	291,572
Online Advertising		82,729	88,666
FinTech and Business Services		177,064	172,195
Others		7,194	7,685
	5	554,552	560,118
Cost of revenues	8	(315,806)	(314,174)
Gross profit		238,746	245,944
Interest income	6	8,592	6,650
Other gains/(losses), net	7	124,293	149,467
Selling and marketing expenses	8	(29,229)	(40,594)
General and administrative expenses	8	(106,696)	(89,847)
Operating profit		235,706	271,620
Finance costs, net	9	(9,352)	(7,114)
Share of profit/(loss) of associates and joint ventures, net	10	(16,129)	(16,444)
Profit before income tax		210,225	248,062
Income tax expense	11	(21,516)	(20,252)
Profit for the year		188,709	227,810
Attributable to:			
Equity holders of the Company		188,243	224,822
Non-controlling interests		466	2,988
		188,709	227,810
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	12(a)	19.757	23.597
– diluted	12(b)	19.341	23.164

The notes on pages 142 to 275 are an integral part of these consolidated financial statements.





Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022	2021
		RMB'Million	RMB'Million
Profit for the year		188,709	227,810
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		1,479	125
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates and joint ventures		(129)	8
Transfer to profit or loss upon disposal of financial assets at fair value through other comprehensive income		13	–
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		(52)	–
Currency translation differences		18,732	(19,392)
Other fair value gains, net		5,457	2,796
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Share of other comprehensive income of associates and joint ventures		937	387
Net (losses)/gains from changes in fair value of assets held for distribution	32	(6,102)	5,380
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		(148,686)	(16,166)
Currency translation differences		(794)	(558)
		(129,145)	(27,420)
Total comprehensive income for the year		59,564	200,390
Attributable to:			
Equity holders of the Company		60,699	200,323
Non-controlling interests		(1,135)	67
		59,564	200,390

The notes on pages 142 to 275 are an integral part of these consolidated financial statements.





Consolidated Statement of Financial Position

As at 31 December 2022

As at 31 December			
		2022	2021
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	53,978	61,914
Land use rights	17	18,046	17,728
Right-of-use assets	18	22,524	20,468
Construction in progress	19	9,229	5,923
Investment properties		559	517
Intangible assets	20	161,802	171,376
Investments in associates	21	246,043	316,574
Investments in joint ventures	22	6,672	6,614
Financial assets at fair value through profit or loss	24	206,085	192,184
Financial assets at fair value through other comprehensive income	25	185,247	250,257
Prepayments, deposits and other assets	26	36,752	37,177
Other financial assets	27	6,987	1,261
Deferred income tax assets	28	29,882	26,068
Term deposits	29	28,336	19,491
		<u>1,012,142</u>	<u>1,127,552</u>
Current assets			
Inventories		2,333	1,063
Accounts receivable	30	45,467	49,331
Prepayments, deposits and other assets	26	76,685	65,390
Other financial assets	27	1,278	1,749
Financial assets at fair value through profit or loss	24	27,963	10,573
Term deposits	29	104,776	83,813
Restricted cash	31	2,783	2,476
Cash and cash equivalents	31	156,739	167,966
Assets held for distribution	32	147,965	102,451
		<u>565,989</u>	<u>484,812</u>
Total assets		<u>1,578,131</u>	<u>1,612,364</u>





Consolidated Statement of Financial Position

As at 31 December 2022

As at 31 December			
		2022	2021
	Note	RMB'Million	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	33	–	–
Share premium	33	62,418	67,330
Treasury shares	33	(1,868)	–
Shares held for share award schemes	33	(4,226)	(4,843)
Other reserves	34	(40,914)	73,901
Retained earnings		705,981	669,911
		721,391	806,299
Non-controlling interests		61,469	70,394
Total equity		782,860	876,693
LIABILITIES			
Non-current liabilities			
Borrowings	36	163,668	136,936
Notes payable	37	148,669	145,590
Long-term payables	38	9,067	9,966
Other financial liabilities	39	5,574	5,912
Deferred income tax liabilities	28	12,162	13,142
Lease liabilities		18,424	16,501
Deferred revenue	5(c)(i)	3,503	4,526
		361,067	332,573





Consolidated Statement of Financial Position

As at 31 December 2022

As at 31 December			
		2022	2021
	Note	RMB'Million	RMB'Million
Current liabilities			
Accounts payable	40	92,381	109,470
Other payables and accruals	41	61,139	60,582
Borrowings	36	11,580	19,003
Notes payable	37	10,446	–
Current income tax liabilities		13,488	12,506
Other tax liabilities		4,698	2,240
Other financial liabilities	39	3,937	3,554
Lease liabilities		6,354	5,446
Deferred revenue	5(c)(i)	82,216	87,846
Dividends payable for distribution in specie	15(b)	147,965	102,451
		434,204	403,098
Total liabilities		795,271	735,671
Total equity and liabilities		1,578,131	1,612,364

The notes on pages 142 to 275 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 131 to 275 were approved by the Board on 22 March 2023 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 2022

	Attributable to equity holders of the Company							
	Share capital	Share premium	Treasury shares	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Balance at 1 January 2022	-	67,330	-	(4,843)	73,901	669,911	806,299	70,394
Comprehensive income								
Profit for the year	-	-	-	-	-	188,243	188,243	466
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates and joint ventures	-	-	-	-	2,337	-	2,337	79
- net losses from changes in fair value of assets held for distribution	-	-	-	-	(6,102)	-	(6,102)	-
- transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates and joint ventures	-	-	-	-	(129)	-	(129)	-
- net losses from changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(146,500)	-	(146,500)	(2,238)
- transfer to profit or loss upon disposal of financial assets at fair value through other comprehensive income	-	-	-	-	11	-	11	2
- currency translation differences	-	-	-	-	17,494	-	17,494	444
- other fair value gains, net	-	-	-	-	5,345	-	5,345	112
Total comprehensive income for the year	-	-	-	-	(127,544)	188,243	60,699	(1,135)
Transfer of losses on disposal and deemed disposal of financial instruments to retained earnings	-	-	-	-	7,838	(7,978)	(140)	-
Transfer of share of other comprehensive income to retained earnings upon disposal and deemed disposal of associates and joint ventures	-	-	-	-	7	(7)	-	-
Share of other changes in net assets of associates and joint ventures	-	-	-	-	7,009	-	7,009	-
Transfer of share of other changes in net assets of associates and joint ventures to profit or loss upon disposal and deemed disposal	-	-	-	-	(5,541)	-	(5,541)	-





Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to equity holders of the Company							
	Share capital	Share premium	Treasury shares	Shares held for share award schemes	Other reserves	Retained earnings	Non-controlling interests	Total equity
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Transactions with equity holders								
Capital injection	-	-	-	-	-	-	3	3
Employee share option schemes:								
– value of employee services	-	2,055	-	-	110	-	97	2,262
– proceeds from shares issued	-	995	-	-	-	-	-	995
Employee share award schemes:								
– value of employee services	-	20,632	-	-	1,425	-	445	22,502
– shares withheld for share award schemes	-	-	-	(2,882)	-	-	-	(2,882)
– vesting of awarded shares	-	(2,882)	-	2,882	-	-	-	-
Tax benefit from share-based payments	-	-	-	-	5	-	-	5
Profit appropriations to statutory reserves	-	-	-	-	1,082	(1,082)	-	-
Repurchase and cancellation of shares	-	(28,010)	-	-	-	-	-	(28,010)
Repurchase of shares (to be cancelled)	-	-	(1,868)	-	-	-	-	(1,868)
Cash dividends	-	-	-	-	-	(12,930)	(1,610)	(14,560)
Dividends under distribution in specie	-	-	-	-	-	(130,156)	-	(130,156)
Non-controlling interests arising from business combinations	-	-	-	-	-	-	908	908
Acquisition of additional equity interests in non wholly-owned subsidiaries	-	-	-	-	992	-	(5,199)	(4,207)
Dilution of interests in subsidiaries	-	-	-	-	(929)	-	1,029	100
Disposal of subsidiaries	-	-	-	-	-	-	(1)	(1)
Changes in put option liabilities in respect of non-controlling interests	-	-	-	-	727	-	121	848
Recognition of put option liabilities arising from business combinations	-	-	-	-	(175)	-	-	(175)
Transfer of equity interests of subsidiaries to non-controlling interests	-	2,298	-	617	179	-	(3,583)	(489)
Total transactions with equity holders at their capacity as equity holders for the year	-	(4,912)	(1,868)	617	3,416	(144,188)	(7,790)	(154,725)
Balance at 31 December 2022	-	62,418	(1,868)	(4,226)	(40,914)	705,981	61,469	782,860





Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to equity holders of the Company						
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Balance at 1 January 2021	–	48,793	(4,412)	121,139	538,464	703,984	74,059
Comprehensive income							
Profit for the year	–	–	–	–	224,822	224,822	2,988
Other comprehensive income, net of tax:							
– share of other comprehensive income of associates and joint ventures	–	–	–	512	–	512	–
– transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates and joint ventures	–	–	–	8	–	8	–
– gain from changes in fair value of assets held for distribution	–	–	–	5,380	–	5,380	–
– net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	(15,073)	–	(15,073)	(1,093)
– currency translation differences	–	–	–	(18,032)	–	(18,032)	(1,918)
– other fair value gains, net	–	–	–	2,706	–	2,706	90
Total comprehensive income for the year	–	–	–	(24,499)	224,822	200,323	67
Transfer of gains on disposal and deemed disposal of financial instruments to retained earnings	–	–	–	(22,393)	22,393	–	–
Transfer of share of other comprehensive income to retained earnings upon disposal and deemed disposal of associates and joint ventures	–	–	–	(35)	35	–	–
Share of other changes in net assets of associates and joint ventures	–	–	–	8,429	–	8,429	1
Transfer of share of other changes in net assets of associates and joint ventures to profit or loss upon disposal and deemed disposal	–	–	–	(5,089)	–	(5,089)	–



Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	612	612
Employee share option schemes:								
– value of employee services	–	1,661	–	53	–	1,714	54	1,768
– proceeds from shares issued	–	1,043	–	–	–	1,043	–	1,043
Employee share award schemes:								
– value of employee services	–	18,347	–	611	–	18,958	543	19,501
– shares withheld for share award schemes	–	–	(2,827)	–	–	(2,827)	–	(2,827)
– vesting of awarded shares	–	(2,090)	2,090	–	–	–	–	–
Tax benefit from share-based payments	–	–	–	462	–	462	–	462
Profit appropriations to statutory reserves	–	–	–	669	(669)	–	–	–
Repurchase and cancellation of shares	–	(2,170)	–	–	–	(2,170)	–	(2,170)
Cash dividends	–	–	–	–	(12,683)	(12,683)	(1,015)	(13,698)
Dividends under distribution in specie	–	–	–	–	(102,451)	(102,451)	–	(102,451)
Distributions from a non wholly-owned subsidiary	–	–	–	–	–	–	(1,401)	(1,401)
Non-controlling interests arising from								
business combinations	–	–	–	–	–	–	1,289	1,289
Disposal and deemed disposal of subsidiaries	–	–	–	–	–	–	(33)	(33)
Acquisition of additional equity interests in								
non wholly-owned subsidiaries	–	–	–	(4,305)	–	(4,305)	(4,616)	(8,921)
Dilution of changes in interests in subsidiaries	–	–	–	205	–	205	736	941
Changes in put option liabilities in respect								
of non-controlling interests	–	–	–	1,483	–	1,483	88	1,571
Lapses of put option liabilities in respect								
of non-controlling interests	–	–	–	783	–	783	–	783
Recognition of put option liabilities arising from								
business combinations	–	–	–	(1,289)	–	(1,289)	–	(1,289)
Transfer of equity interests of subsidiaries								
to non-controlling interests	–	1,746	306	(2,323)	–	(271)	10	(261)
Total transactions with equity holders at their capacity as equity holders for the year	–	18,537	(431)	(3,651)	(115,803)	(101,348)	(3,733)	(105,081)
Balance at 31 December 2021	–	67,330	(4,843)	73,901	669,911	806,299	70,394	876,693

The notes on pages 142 to 275 are an integral part of these consolidated financial statements.





Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022	2021
		RMB'Million	RMB'Million
Cash flows from operating activities			
Cash generated from operations	43(a)	173,760	203,712
Income tax paid		(27,669)	(28,526)
Net cash flows generated from operating activities		146,091	175,186
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		(12,267)	(21,944)
Net inflow of cash in respect of disposals of investments in subsidiaries		33	–
Purchase of property, plant and equipment, construction in progress and investment properties		(22,679)	(29,302)
Proceeds from disposals of property, plant and equipment		376	191
Purchase of/prepayments for intangible assets		(27,645)	(31,159)
Purchase of/prepayments for land use rights		(526)	(1,704)
Payments for acquisition of investments in associates		(11,602)	(50,091)
Proceeds from disposals of investments in associates		22,269	4,035
Payments for acquisition of investments in joint ventures		(20)	(364)
Proceeds from disposals of investments in joint ventures		352	1,383
Payments for acquisition of financial assets at fair value through other comprehensive income		(12,925)	(28,251)
Proceeds from disposals of financial assets at fair value through other comprehensive income		8,048	33,521
Payments for acquisition of financial assets at fair value through profit or loss		(41,181)	(79,350)
Proceeds from disposals of financial assets at fair value through profit or loss		20,019	28,800
Payments for acquisition/settlement of other financial instruments		(870)	(2,202)
Proceeds from disposals of other financial assets		344	338
Payments for loans to investees and others		(2,949)	(11,251)
Loans repayments from investees and others		501	1,127
Receipt from maturity of term deposits with initial terms of over three months		92,199	55,140
Placement of term deposits with initial terms of over three months		(127,046)	(55,713)
Interest received		8,506	4,923
Dividends received		2,192	3,324
Net cash flows used in investing activities		(104,871)	(178,549)





Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Year ended 31 December	
	2022	2021
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	7,701	23,103
Repayments of short-term borrowings	(15,378)	(22,944)
Proceeds from long-term borrowings	22,535	33,348
Repayments of long-term borrowings	(8,451)	(777)
Net proceeds from issuance of notes payable	–	27,060
Principal elements of lease payments	(5,969)	(4,423)
Interest paid	(9,342)	(7,525)
Payments for repurchase of shares	(29,307)	(2,170)
Proceeds from issuance of ordinary shares as a result of exercise of share options	995	1,043
Shares withheld for share award schemes	(2,882)	(2,827)
Proceeds from issuance of additional equity of non wholly-owned subsidiaries	8	727
Proceeds from partial disposals of equity interests in non wholly-owned subsidiaries	–	110
Payments for acquisition of non-controlling interests in non wholly-owned subsidiaries	(4,746)	(9,199)
Dividends paid to the Company's shareholders	(12,952)	(12,503)
Dividends paid to non-controlling interests	(2,165)	(1,403)
Net cash flows (used in)/generated from financing activities	(59,953)	21,620
Net (decrease)/increase in cash and cash equivalents	(18,733)	18,257
Cash and cash equivalents at beginning of the year	167,966	152,798
Exchange gains/(losses) on cash and cash equivalents	7,506	(3,089)
Cash and cash equivalents at end of the year	156,739	167,966

The notes on pages 142 to 275 are an integral part of these consolidated financial statements.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022

1 GENERAL INFORMATION (continued)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.2(a) and Note 48) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 48.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("FVPL"), financial assets at fair value through other comprehensive income ("FVOCI"), dividends payable for distribution in specie, certain other financial assets and liabilities, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Amendments to standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020 Cycle





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments to standards adopted by the Group (continued)

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 on 1 January 2022 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
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	1 January 2024

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 depreciation of right-of-use assets arise, there will be a net temporary difference on which deferred income tax is recognised. From the effective date of Amendments to IAS 12 on 1 January 2023, the Group will need to recognise a deferred income tax asset and a deferred income tax liability for the temporary differences arising on a lease on initial recognition.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement, which is recognised under "Other financial assets" or "Other financial liabilities" in the consolidated financial statements. Identifiable assets acquired and liabilities and contingent consideration assumed in a business combination are measured initially at their fair values at the acquisition date.

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.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Business combinations (continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the Group'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 are recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the total of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

(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 the 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 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 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 a financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means that amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable IFRSs.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 48(f)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust", and will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition of the Company's shares.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are initially recognised at cost and are subsequently accounted for using the equity method of accounting. The Group's investments in associates include underlying goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. Where the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method, including investments in associates and joint ventures (Note 2.4), are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying amount 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.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.4 Joint arrangements

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Joint ventures

Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profit or loss and movements in other comprehensive income. Where the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any other unsecured long-term receivables that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Investments in associates/joint ventures achieved in stages

The cost of associates/joint ventures acquired in stages, except for the change from an associate to a joint venture, is measured as the sum of the fair value of the interests previously held plus the fair value of any additional consideration transferred as of the date when they become associates/joint ventures.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.6 Disposal of associates and joint ventures

When the Group ceases to continue equity accounting for an associate or joint venture because of a loss of significant influence or joint control, it measures any retained investment at fair value. A gain or loss is recognised at any difference between the fair value of any retained interest plus any proceeds from disposing part of the interests in the associate or joint venture and the carrying amount of the investment at the date the equity method of accounting was discontinued. The amounts previously recognised in other comprehensive income in respect of the associate or joint venture should be reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable IFRSs when the Group ceases to continue equity accounting for the associate or joint venture.

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.8 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and certain of its overseas subsidiaries is United States Dollars ("USD"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in Renminbi ("RMB"), unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.8 Foreign currency translation (continued)

(b) Transactions and balances (continued)

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified as FVOCI, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising thereon are recognised in other comprehensive income.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 Property, plant and equipment

All property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost net of their residual values over their estimated useful lives, as follows:

Buildings	20 ~ 50 years
Computer and other operating equipment	2 ~ 10 years
Furniture and office equipment	2 ~ 5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of their useful lives and the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction costs less any impairment loss. Construction in progress is transferred to property, plant and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.14).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in "Other gains/(losses), net" in the consolidated income statement.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs net of their residual values over their estimated useful lives of 20-50 years. Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts (Note 2.14).

2.11 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated income statement on a straight-line basis over the remaining period of the lease.

2.12 Intangible assets

(a) Goodwill

Goodwill on acquisition of subsidiaries is recognised as described in Note 2.2(a) and included in "Intangible assets" in the consolidated financial statements.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of the CGU or group of CGUs including the allocated goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately under "Other gains/(losses), net" and is not subsequently reversed.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 Intangible assets (continued)

(b) Media content

Media content mainly includes game licenses, video and music content, and literature copyrights. They are initially recognised and measured at cost or estimated fair value as acquired through business combinations. Media content is 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 customer relationships. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are amortised over their estimated useful lives (generally one to ten years) using the straight-line method which reflects the pattern in which the intangible assets' future economic benefits are expected to be consumed.

2.13 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 48(f)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and the amount is deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award schemes", with a corresponding adjustment made to "Share premium".



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.14 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Investments and other financial assets

(a) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Except for accounts receivable, at initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

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 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.15 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 method.
- **FVOCI:** Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net" in the consolidated income statement. Interest income from these financial assets is recognised using the effective interest method. Foreign exchange gains and losses are presented in "Finance costs, net" and impairment losses or reversals are presented in "Other gains/(losses), net".
- **FVPL:** Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "Other gains/(losses), net" for the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.15 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Equity instruments

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group's management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they are in the scope of IFRS 9 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made the irrevocable election to present fair value gains or losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains or 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 other 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 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, which are recognised under "Other financial assets" and "Other financial liabilities" in the consolidated financial statements, respectively. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). The Group documents at the inception of the hedging relationship the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the hedge effectiveness requirements under IFRS 9. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through other comprehensive income within equity, while any ineffective portion is recognised immediately in profit or loss, within "Other gains/(losses), net".

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ("aligned time value") are recognised within other comprehensive income in the costs of hedging reserve within equity.

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 affect profit or loss.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Derivative and hedging activities (continued)

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging included in equity are immediately reclassified to profit or loss.

Hedge relationships

The interest rate benchmark reform – phase 2 amendments address issues arising during interest rate benchmark reform, including specifying when the interest rate benchmark reform – phase 1 (“phase 1”) amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate as the hedged risk are permitted.

The “phase 1” amendments provided temporary reliefs from applying specific hedge accounting requirements to hedging relationships directly affected by Inter Bank Offered Rate (“IBOR”) reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness continued to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from interest rate benchmark reform no longer being present.

The LIBOR benchmark in which the Group continues to have hedging instrument is USD LIBOR, for which it is expected that the transition out will be completed before 30 June 2023. The Group will update its hedge documentation to reflect the changes in designation (including designating an alternative benchmark rate as a hedged risk, amending the description of the hedged item, and amending the description of hedging instrument) by the end of the reporting period in which the changes are made. These amendments to the hedge documentation do not require the Group to discontinue its hedge relationships.

2.17 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in certain circumstances, such as default, insolvency, bankruptcy or the termination of a contract.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.18 Inventories

Inventories, mainly consisting of merchandise for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

2.19 Accounts receivable

Accounts receivable are amounts due from customers or agents for services performed or merchandise sold in the ordinary course of business. Accounts receivable are presented as current assets unless collection is not expected within 12 months after the end of the reporting period.

Accounts receivable are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value, and subsequently measured at amortised cost using the effective interest method, less provision for impairment that is subject to expected credit loss model (Note 3.1(b)).

2.20 Cash and cash equivalents

Cash and cash equivalents mainly include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with initial maturities of three months or less.

The Group does not recognise cash amounts deposited with banks in the Mainland of China (which are received under its payment business) under users' entrustment in the consolidated statement of financial position as the Group holds these cash amounts as a custodian according to the relevant users' agreements.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any Group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders as treasury shares until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.22 Accounts payable

Accounts payable are obligations to pay for services or goods that have been acquired in the ordinary course of business from suppliers. Accounts payable are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period.

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

2.23 Put option arrangements on non-controlling interest

Put options on non-controlling interest of the Group are financial instruments granted by the Group which permit the holders to put back to the Group their shares in certain non wholly-owned subsidiaries of the Group for cash or other financial instruments when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial instruments under the put option, a financial liability is initially recognised under "Other financial liabilities" in the consolidated financial statements at the present value of the estimated future cash outflows on exercise under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount based on the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustment will be recognised in the consolidated statement of changes in equity. In the event that the put option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The put option liabilities are current liabilities unless the put option first becomes exercisable 12 months after the end of the reporting period.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.24 Borrowings, notes payable and borrowing costs

Borrowings and notes payable issued by the Group are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over their terms using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan facilities to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the term of the facility to which it relates.

Borrowings and notes payable are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific finance costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year ended 31 December 2022, finance cost capitalised was insignificant to the Group.

2.25 Current and deferred income tax

The income tax expense for the year comprises current and deferred income tax, which is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the income tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. When it is not probable, the Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.25 Current and deferred income tax (continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and tax losses.

Deferred income tax liabilities are provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liability in relation to taxable temporary differences arising from the associates' and joint ventures' undistributed profit is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior years. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

(c) Long-term employee benefit obligations

In addition to participating in the defined contribution plans as described above, the Group also provides commercial health insurance benefits to certain eligible employees till their resignation or retirement. These obligations are classified as non-current liabilities unless it is expected to be settled wholly within 12 months after the end of the reporting period.

These long-term employee benefit obligations are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. For currencies for which there is no deep market in such high-quality corporate bonds, the market yields on government bonds denominated in that currency were applied. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Employee benefits (continued)

(d) Long-term service awards

The Group recognises a liability and an expense for long-term service awards where cash is paid to retired employees qualified for certain criteria as one-off retirement bonus and it was considered as a defined benefit plan. The method of accounting is similar to those used for long-term employee benefits as described above, except that re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they occur.

(e) Share-based compensation benefits

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

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

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

From the perspective of the Company, the grants of its equity instruments to employees of its subsidiaries are made in exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses are treated as part of the "Investments in subsidiaries" or "Other receivables" in the Company's statement of financial position.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Employee benefits (continued)

(e) Share-based compensation benefits (continued)

At each reporting period end, the Group revises the estimates of the number of options and awarded shares that are expected to ultimately vest. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement of the Group, with a corresponding adjustment to equity.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. When the vested equity instruments are later forfeited prior to expiry date, the amount previously recognised in share premium may be transferred to retained earnings.

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

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

Cash-settled share-based payment transactions are those arrangements where 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.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.28 Revenue recognition

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

(a) VAS

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

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





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Revenue recognition (continued)

(a) VAS (continued)

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

In respect of the Group's VAS directly delivered to the Group's customers and paid through various third-party platforms, these third-party platforms collect the relevant service fees (the "Online Service Fees") on behalf of the Group and they are entitled to a pre-determined percentage of platform provider fees (as part of "Channel and distribution costs"). Such Channel and distribution costs are withheld and deducted from the gross Online Service Fees collected by these platforms from the users, with the net amounts remitted to the Group. The Group recognises the Online Service Fees as revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in these transactions based on the assessment according to the criteria stated in (e) below.

The Group also opens its online platforms to third-party game/application developers under certain co-operation agreements, of which the Group pays to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of the Group's online platforms for the virtual items purchased. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction.

The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Revenue recognition (continued)

(b) Online Advertising

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

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

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

(c) FinTech and Business Services

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

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

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





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Revenue recognition (continued)

(d) Other revenues

The Group's other revenues are primarily derived from production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities. The Group recognises other revenues when the respective services are rendered, or when the control of the products is transferred to customers.

(e) Principal agent consideration

The Group reports the revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but are not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

(f) Deferred revenue, contract liabilities and contract costs

The Group's deferred revenue includes contract liabilities and refundable advance payments in certain businesses. 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)), which are presented as "deferred revenue" in the consolidated statement of financial position.

Contract costs include incremental costs of obtaining a contract and costs to fulfil a contract with the customers. The contract costs are amortised using a method which is consistent with the pattern of recognition of the respective revenues. The Group has applied the practical expedient to recognise the contract cost relating to obtaining a contract as an expense when incurred, if otherwise the amortisation period is one year or less.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "Interest income" where it is mainly earned from financial assets that are held for cash management purposes.

2.30 Dividend income

Dividends are received from FVPL and FVOCI. Dividends are recognised in "Other gains/(losses), net" in the consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at FVOCI.

2.31 Government grants/subsidies

Grants/subsidies from government are recognised at their fair values where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs and expenses which the grants/subsidies are intended to compensate.

2.32 Leases

The Group leases land (Note 2.11), various buildings, computer and other operating equipment and others. Rental contracts other than land are typically made for fixed periods of no longer than 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. A right-of-use asset arising from land lease is presented as "Land use rights".



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.32 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.32 Leases (continued)

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

A right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.33 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividend is approved by the Company's shareholders or board of directors where appropriate and no longer at the discretion of the Group.

In respect of a dividend by way of distribution of non-cash assets, the liability to distribute the non-cash assets as a dividend is measured at the fair value of the assets to be distributed on the declaration date. At the end of the reporting period and at the date of settlement, the Group reviews and adjusts the carrying amount of the dividend liability, and any subsequent change in the fair value of the dividend liability is recognised in equity as an adjustment to the amount of the dividend distribution. Upon settlement, the difference between the carrying amount of the dividend liability which is also the fair value of the assets distributed, and the carrying amount of the assets distributed, if any, is recognised in profit or loss.

The non-cash assets to be distributed are presented as "Assets held for distribution" in the consolidated statement of financial position.

2.34 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the management of the Group.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong Dollars ("HKD"), USD and Euro ("EUR"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's subsidiaries. The functional currency of the Company and majority of its overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

As at 31 December 2022, 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 2022		
Monetary assets, current	13,332	7,536
Monetary assets, non-current	3	1,490
Monetary liabilities, current	(9,242)	(3,397)
Monetary liabilities, non-current	(2,957)	(869)
	<u>1,136</u>	<u>4,760</u>
As at 31 December 2021		
Monetary assets, current	11,059	4,587
Monetary assets, non-current	–	–
Monetary liabilities, current	(6,224)	(2,671)
Monetary liabilities, non-current	(5,241)	(721)
	<u>(406)</u>	<u>1,195</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

During the year ended 31 December 2022, the Group reported net exchange gains of approximately RMB633 million (2021: RMB804 million) within "Finance costs, net" in the consolidated income statement.

As at 31 December 2022, management considered that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currencies are considered to be not significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

(ii) Price risk

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified either as FVPL (Note 24) or FVOCI (Note 25). To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group's liquidity level simultaneously. Each investment is managed by management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL and FVOCI at the end of each reporting period. If prices of the respective instruments held by the Group had been 5% (31 December 2021: 5%) higher/lower as at 31 December 2022, profit for the year would have been approximately RMB11,028 million (2021: RMB9,815 million) higher/lower as a result of gains/losses on financial instruments classified as at FVPL, other comprehensive income would have been approximately RMB9,096 million (2021: RMB12,348 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 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents, details of which have been disclosed in Notes 26, 29 and 31.

If the interest rate of term deposits with initial terms of over three months had been 50 basis points higher/lower, the profit before income tax for the year ended 31 December 2022 would have been RMB666 million (2021: RMB517 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 2022 would have been RMB784 million (2021: RMB840 million) higher/lower.

The Group's exposure to changes in interest rates is also attributable to its borrowings and notes payable, details of which have been disclosed in Notes 36 and 37, representing a substantial portion of the Group's debts. Borrowings and notes payable carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

The Group regularly monitors its interest rate risk to identify if there are any undue exposures to significant interest rate movements and manages its cash flow interest rate risk by using interest rate swaps, whenever considered necessary.

The Group entered into certain interest rate swap contracts to hedge its exposure arising from borrowings and senior notes carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings and senior notes from floating rates to fixed rates and were qualified for hedge accounting. Details of the Group's outstanding interest rate swap contracts as at 31 December 2022 are mainly disclosed in both Note 27 and 39.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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:

	2022	2021
	RMB'Million	RMB'Million
Interest rate swaps		
Carrying amount (current assets)	216	–
Carrying amount (non-current assets)	6,752	1,253
Carrying amount (current liabilities)	–	(109)
Carrying amount (non-current liabilities)	–	(249)
Notional amount	103,410	104,708
Maturity date	2023/1/19~ 2026/2/24	2022/3/29~ 2026/2/24
Hedge ratio	1:1	1:1
Changes in fair value of outstanding hedging instruments since 1 January	5,457	2,796
Change in value of hedged item used to determine hedge effectiveness since 1 January	5,457	2,796
Weighted average hedged rate for the year	0.64%	0.77%
Notional amount directly impacted by IBOR reform	103,410	104,708

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

As at 31 December 2022 and 2021, 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.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The LIBOR benchmark in the aforesaid floating-rate borrowings and notes payable in which the Group continues to have hedging instrument is USD LIBOR. The following table contains details of all the financial instruments that the Group held at 31 December 2022 which reference USD LIBOR and have not yet transitioned to an alternative interest rate benchmark:

	Carrying amount at 31 December 2022		Of which: Have not yet transitioned to an alternative benchmark interest rate as at 31 December 2022	
	Assets	Liabilities	Assets	Liabilities
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Assets and liabilities exposed to USD LIBOR				
Measured at amortised cost				
Borrowings	–	146,243	–	146,243
Notes payable	–	8,706	–	8,706
Measured at fair value				
Other financial assets	6,968	–	6,968	–
Other financial liabilities	–	–	–	–
Total assets and liabilities exposed to USD LIBOR	6,968	154,949	6,968	154,949

Management is closely monitoring the progress of the alternative selection and assessing the potential impacts on a continuous basis. It is expected that the transition will be completed before 30 June 2023, and no significant impact arose during the year ended 31 December 2022.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 assessments on the recoverability of other receivables based on historical settlement records and past experience.

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

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

(i) Credit risk of cash and deposits

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

(ii) Credit risk of accounts receivable

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Credit risk of accounts receivable (continued)

The expected loss rates are based on the payment profiles of revenue over 12 months before 31 December 2022 and the corresponding historical credit losses experienced within this period or probability of a receivable progressing through successive stages of delinquency to write-off. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product ("GDP") to be the most relevant factor. Various economic scenarios are considered in generating the forward-looking adjustment, including the recent influences of the coronavirus pandemic situation.

A default on accounts receivable occurs when the counterparty fails to make contractual payments within 90 days when they fall due. To measure the expected credit losses, accounts receivable are grouped on the basis of shared credit risk characteristics, such as industry, with the objective of facilitating an analysis to identify significant increases in credit risk and recognition of loss allowance on a timely basis. Accounts receivable are written off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with 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 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date (or the earliest date a financial liability may become payable in the absence of a fixed maturity date). The amounts disclosed in the table are the contractual undiscounted cash flows or the carrying amount of the financial assets to be delivered.

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2022					
Non-derivatives:					
Notes payable	15,614	18,737	31,511	163,558	229,420
Long-term payables	–	5,290	1,264	423	6,977
Borrowings	18,868	38,953	142,964	4	200,789
Lease liabilities	6,661	5,294	9,366	4,296	25,617
Other financial liabilities	3,835	1,967	3,901	480	10,183
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	125,040	–	–	–	125,040
Dividends payable for distribution in specie	147,965	–	–	–	147,965
Derivatives:					
Other financial liabilities	9	–	–	–	9
	<u>317,992</u>	<u>70,241</u>	<u>189,006</u>	<u>168,761</u>	<u>746,000</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2021					
Non-derivatives:					
Notes payable	4,856	14,268	42,196	152,539	213,859
Long-term payables	–	5,917	4,092	51	10,060
Borrowings	20,937	9,046	131,505	6	161,494
Lease liabilities	5,877	5,192	9,541	3,711	24,321
Other financial liabilities	3,795	2,117	2,848	1,016	9,776
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	140,690	–	–	–	140,690
Dividends payable for distribution in specie	102,451	–	–	–	102,451
Derivatives:					
Other financial liabilities	109	77	172	–	358
	<u>278,715</u>	<u>36,617</u>	<u>190,354</u>	<u>157,323</u>	<u>663,009</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

Capital refers to equity and external debts (including borrowings and notes payable). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, repurchase the Company's shares or raise/repay debts.

The Group assesses its creditworthiness based on its business and financial risk profile and monitors its capital by regularly reviewing its total debts to adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") (Note) ratio, being the measure of the Group's ability to pay off all of its debts which in turn reflects the Group's financial health and liquidity position. The total debts/adjusted EBITDA ratio calculated by dividing the total debts by adjusted EBITDA is as follows:

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Borrowings (Note 36)	175,248	155,939
Notes payable (Note 37)	159,115	145,590
Total debts	334,363	301,529
Adjusted EBITDA (Note)	188,986	194,798
Total debts/Adjusted EBITDA ratio	1.77	1.55

Note:

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





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022 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 2022				
FVPL	13,934	27,109	193,005	234,048
FVOCI	160,528	1,881	22,838	185,247
Assets held for distribution	147,965	–	–	147,965
Other financial assets	–	7,059	211	7,270
Other financial liabilities	–	(9)	(3,298)	(3,307)
Dividends payable for distribution in specie (Note)	<u>(147,965)</u>	<u>–</u>	<u>–</u>	<u>(147,965)</u>
As at 31 December 2021				
FVPL	23,566	8,069	171,122	202,757
FVOCI	227,788	–	22,469	250,257
Assets held for distribution	102,451	–	–	102,451
Other financial assets	–	1,709	17	1,726
Other financial liabilities	–	(358)	(2,444)	(2,802)
Dividends payable for distribution in specie	<u>(102,451)</u>	<u>–</u>	<u>–</u>	<u>(102,451)</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note:

It represented the dividend liability resulting from distribution in specie which was measured at fair value of shares of Meituan to be distributed (Note 15(b)) as at 31 December 2022.

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 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

During the year ended 31 December 2022, there was no transfer between level 1 and 2 for recurring fair value measurements. Transfers in and out of level 3 measurements are set out in the following table, which presents the changes of financial instruments in level 3 for the years ended 31 December 2022 and 2021:

	Financial assets		Financial liabilities	
	2022	2021	2022	2021
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Opening balance	193,608	152,906	(2,444)	(3,352)
Additions	22,581	79,756	(1,238)	(102)
Business combinations	14	–	(61)	–
Disposals/settlements	(6,620)	(11,333)	753	803
Transfers	(7,847)	(90,778)	–	–
Changes in fair value recognised in other comprehensive income	363	17,120	–	–
Changes in fair value recognised in profit or loss*	(1,220)	52,076	(146)	46
Currency translation differences	15,175	(6,139)	(162)	161
Closing balance	216,054	193,608	(3,298)	(2,444)
*Includes unrealised (losses)/gains recognised in profit or loss attributable to balances held at the end of the reporting period	(3,564)	12,053	(148)	113

Note:

During the years ended 31 December 2022 and 2021, transfers from level 3 to level 1 were mainly due to the successful Initial Public Offerings ("IPOs") of existing investees.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Valuation processes inputs and relationships to fair value (Level 3)

The Group has a team of personnel who performs valuation on these level 3 instruments for financial reporting purposes. The team performs valuation, or necessary updates, at least once every quarter, which coincides with the Group's quarterly reporting dates. On an annual basis, the team adopts various valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts may also be involved and consulted when it is necessary.

The components of the level 3 instruments mainly include investments in unlisted companies classified as FVPL or FVOCI, other financial assets, and other financial liabilities. Other financial liabilities mainly include contingent consideration payable related to certain business combinations. As these investments and instruments are not traded in an active market, the majority of their fair values have been determined using applicable valuation techniques including comparable companies approach, comparable transactions approach and other option pricing approach. These valuation approaches require significant judgments, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund-raising transactions undertaken by the investees) and other exposure, etc.

The quantitative information about the significant unobservable inputs used in level 3 fair value measurements of investments in unlisted companies comprises:

Description	Fair value as		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair value
	at 31 December			as at 31 December		
	2022	2021		2022	2021	
	RMB'Million	RMB'Million				
Investments in unlisted companies in FVPL and FVOCI	210,340	185,774	Expected volatility	29%~83%	29%~70%	Depends on rights and restrictions of shares held by the Group
			Risk-free rate	0.04%~7.14%	-0.58%~-5.39%	



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

For the fair value of the Group's investments in unlisted companies, the sensitivity analysis on equity price risk is performed by management, see Note 3.1(a)(ii) for details.

For the fair value of contingent consideration related to business combinations, management considered that any reasonable changes in the growth rate of net profit or expected volatility would not result in a significant change in the Group's results for the years ended 31 December 2022 and 2021.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) The estimates of the lifespans of virtual items provided on the Group's online platforms

As mentioned in Note 2.28(a), the end users purchase certain virtual items provided on the Group's online platforms and the relevant revenue is recognised based on the estimated lifespans of the virtual items. The estimated lifespans of different virtual items are determined by the management based on either the expected users' relationship periods or the stipulated period of validity of the relevant virtual items depending on the respective terms of virtual items.

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 indicator 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Recoverability of non-financial assets

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

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

(c) Fair value measurement of FVPL, FVOCI and other financial liabilities

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

(d) Share-based compensation arrangements

As mentioned in Note 2.26(e), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the Binomial Model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant estimates and judgment on key parameters, such as risk-free rate, dividend yield and expected volatility, are required to be made by the directors based on historical experience and other relevant factors in applying the Binomial Model (Note 35). Changes in these estimates and judgments could materially affect the fair value of these options granted.

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD1,452 million (equivalent to approximately RMB1,211 million) in 2022 (2021: approximately HKD2,994million (equivalent to approximately RMB2,513 million)).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Share-based compensation arrangements (continued)

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. Where the final retention rate is different from the initial estimate, such differences will impact the share-based compensation expenses in subsequent periods. As at 31 December 2022, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be not lower than 89% (31 December 2021: not lower than 89%).

(e) Income taxes

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

(f) Scope of consolidation

Consolidation is required only if control exists. The Group controls an investee when it has all the following: (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. Power results from rights that can be straightforward through voting rights or complicated in contractual arrangements. Variable returns normally encompass financial benefits and risks, but in certain cases, they also include operational values specific to the Group. These three factors cannot be considered in isolation by the Group in its assessment of control over an investee. Where the factors of control are not apparent, significant judgement is applied in the assessment, which is based on an overall analysis of all of the relevant facts and circumstances.

The Group is required to reassess whether it controls the investee if facts and circumstances indicate a change to one or more of the three factors of control.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022 and 2021:

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

The "Others" business segment consists of the financials of investment in, production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance costs, net, share of profit/(loss) of associates and joint ventures, net and income tax expense are not allocated to individual operating segment, either.

There were no material inter-segment sales during the years ended 31 December 2022 and 2021. 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 was no segment assets or segment liabilities information provided to the chief operating decision-makers.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022 and 2021 is as follows:

	Year ended 31 December 2022				
	Online		FinTech and Business		
	VAS	Advertising	Services	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>287,565</u>	<u>82,729</u>	<u>177,064</u>	<u>7,194</u>	<u>554,552</u>
Gross profit/(loss)	<u>145,647</u>	<u>35,009</u>	<u>58,374</u>	<u>(284)</u>	<u>238,746</u>
Cost of revenues					
Depreciation	6,147	6,477	9,467	50	22,141
Amortisation	<u>19,320</u>	<u>8,422</u>	<u>200</u>	<u>1,569</u>	<u>29,511</u>

	Year ended 31 December 2021				
	Online		FinTech and Business		
	VAS	Advertising	Services	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>291,572</u>	<u>88,666</u>	<u>172,195</u>	<u>7,685</u>	<u>560,118</u>
Gross profit	<u>152,936</u>	<u>40,594</u>	<u>51,396</u>	<u>1,018</u>	<u>245,944</u>
Cost of revenues					
Depreciation	5,797	5,322	10,268	106	21,493
Amortisation	<u>18,740</u>	<u>7,810</u>	<u>72</u>	<u>1,973</u>	<u>28,595</u>

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





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022 and 2021, breakdown of the total revenues by geographical location is as follows:

	2022	2021
	RMB'Million	RMB'Million
Revenues		
– The Mainland of China	502,534	513,688
– Others	52,018	46,430
	554,552	560,118

The Group also conducts operations in the North America, Europe and other regions, and holds investments (including investments in associates, investments in joint ventures, FVPL, FVOCI and assets held for distribution) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Operating assets		
– The Mainland of China	482,401	490,415
– Others	275,755	243,296
Investments		
– The Mainland of China and Hong Kong	560,835	539,900
– North America	91,636	148,455
– Asia excluding the Mainland of China and Hong Kong	105,891	103,386
– Europe	45,835	63,117
– Others	15,778	23,795
	1,578,131	1,612,364





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

5 SEGMENT INFORMATION AND REVENUES (continued)

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

As at 31 December 2022, the total non-current assets other than financial instruments and deferred income tax assets located in the Mainland of China and other regions amounted to RMB352,703 million (31 December 2021: RMB446,565 million) and RMB192,413 million (31 December 2021: RMB182,612 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 2022 and 2021.

(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)).

	2022 RMB'Million	2021 RMB'Million
Revenue from contracts with customers		
– VAS	287,565	291,572
<i>Games</i>	170,715	174,314
<i>Social networks</i>	116,850	117,258
– Online Advertising	82,729	88,666
<i>Social and others advertising</i>	72,020	75,349
<i>Media advertising</i>	10,709	13,317
– FinTech and Business Services	177,064	172,195
– Others	7,194	7,685
	554,552	560,118





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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	
	2022	2021
	RMB'Million	RMB'Million
Contract liabilities:		
VAS	62,478	62,261
Online Advertising	2,152	2,588
FinTech and Business Services	6,082	6,601
Others	182	108
	<u>70,894</u>	<u>71,558</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.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

5 SEGMENT INFORMATION AND REVENUES (continued)

(c) Assets and liabilities related to contracts with customers (continued)

Note: (continued)

(ii) Revenue recognised in relation to contract liabilities

The following table shows the extent of the revenue recognised in the current reporting period which relates to carried-forward contract liabilities:

	2022 RMB*Million	2021 RMB*Million
Revenue recognised that was included in the contract liabilities balance at the beginning of the year:		
VAS	59,326	56,562
Online Advertising	1,549	2,665
FinTech and Business Services	5,558	5,636
Others	108	181
	66,541	65,044

As at 31 December 2022 and 2021, total capitalised contract costs to obtain or fulfill contracts with customers were immaterial.

6 INTEREST INCOME

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





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

7 OTHER GAINS/(LOSSES), NET

	2022	2021
	RMB'Million	RMB'Million
Net gains on disposals and deemed disposals of investee companies (Note (a))	172,707	118,051
Net fair value (losses)/gains on FVPL (Note (b))	(7,117)	47,560
Impairment provision for investments in associates (Note 21(d))	(25,689)	(15,391)
Impairment provision for investments in joint ventures and others	(1,849)	(924)
Impairment provision for goodwill and other intangible assets arising from acquisitions (Note 20)	(17,265)	(8,713)
Net fair value (losses)/gains on other financial instruments (Note (c))	(633)	157
Subsidies and tax rebates	11,119	8,888
Donations (Note (d))	(5,124)	(2,050)
Dividend income	948	660
Others	(2,804)	1,229
	124,293	149,467

Note:

- (a) The disposal and deemed disposal gains of approximately RMB172,707 million recognised during the year ended 31 December 2022 comprised the following:
- net gains of approximately RMB2,793 million (2021: RMB18,646 million) on dilution of the Group's equity interests in certain associates and a joint venture due to new equity interests being issued by these investee companies (Note 21 and Note 22). These investee companies are principally engaged in games development, local services, social media platform and Internet-related businesses; and
 - aggregate net gains of approximately RMB169,914 million (2021: RMB99,405 million) on disposals, partial disposals or deemed disposals of various investments of the Group, which mainly comprised the following:
 - (i) step down gain of approximately RMB106,555 million arising from the investment in Meituan, details of which are explained in Note 21(c); and
 - (ii) gain of approximately RMB18,481 million arising from partial divestment of Sea Limited ("Sea"; NYSE: SE) an existing associate of the Group, on 4 January 2022, details of which are explained in Note 21(b), and step down gain of approximately RMB41,293 million arising from transfer of the investment in Sea to FVOCI as a result of resignation of board representative and the provision of an irrevocable voting proxy to the board of directors of Sea on 5 September 2022, details of which are explained in Note 21(b).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

7 OTHER GAINS/(LOSSES), NET (continued)

Note: (continued)

- (b) During the year ended 31 December 2022, the net fair value losses on FVPL mainly comprised net losses of approximately RMB7,737 million as a result of changes in valuations of certain investee companies (2021: net gains of approximately RMB47,424 million).
- (c) During the year ended 31 December 2022, the net fair value losses on other financial instruments mainly included net losses of approximately RMB586 million, as a result of changes in valuations of investment-related financial instruments (2021: net gains of approximately RMB157 million).
- (d) During the year ended 31 December 2022, donations mainly included approximately RMB5,037 million for the Sustainable Social Value and Common Prosperity Programmes (collectively defined as "SSV & CPP") of the Group (2021: RMB450 million).

8 EXPENSES BY NATURE

	2022 RMB'Million	2021 RMB'Million
Transaction costs (Note (a))	124,282	129,136
Employee benefits expenses (Note (b) and Note 13)	111,182	95,523
Content costs (excluding amortisation of intangible assets)	67,306	66,911
Amortisation of intangible assets (Note (c) and Note 20)	32,695	31,430
Bandwidth and server custody fees (excluding depreciation of right-of-use assets)	30,719	27,260
Depreciation of property, plant and equipment, investment properties and right-of-use assets (Note 16 and Note 18)	28,444	26,166
Promotion and advertising expenses	18,764	31,335
Auditor's remuneration		
– Audit and audit-related services	146	148
– Non-audit services	32	54
– Tax advisory	18	14
– Due diligence service	5	23
– Other services	9	17





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022, the Group had incurred expenses for the purpose of research and development of approximately RMB61,401 million (2021: RMB51,880 million), which mainly comprised employee benefits expenses of approximately RMB50,000 million (2021: RMB42,958 million).

No significant development expenses had been capitalised for the years ended 31 December 2022 and 2021.

During the year ended 31 December 2022, employee benefits expenses included the share-based compensation expenses of approximately RMB26,248 million (2021: RMB22,222 million), which contained those incurred for employees related to SSV & CPP of approximately RMB73 million (2021: RMB21 million).

- (c) Amortisation charges of intangible assets are mainly in respect of media content including video and music content, game licenses, and other content. During the year ended 31 December 2022, amortisation of media content was approximately RMB28,893 million (2021: RMB28,393 million).

During the year ended 31 December 2022, amortisation of intangible assets included the amortisation of intangible assets arising from acquisitions of approximately RMB5,197 million (2021: RMB4,651 million).

- (d) During the year ended 31 December 2022, expenses incurred related to SSV & CPP (excluding share-based compensation expenses) were approximately RMB726 million (2021: RMB224 million).
- (e) During the year ended 31 December 2022, expenses incurred for non-recurring compliance-related costs and certain litigation settlements were approximately RMB205 million (2021: RMB976 million), of which approximately RMB20 million (2021: RMB630 million) were included in "Other gains/(losses), net".





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

9 FINANCE COSTS, NET

	2022	2021
	RMB'Million	RMB'Million
Interest and related expenses	9,985	7,918
Exchange (gains)/losses, net	(633)	(804)
	<u>9,352</u>	<u>7,114</u>

Interest and related expenses mainly arose from the borrowings, notes payable and lease liabilities as disclosed in Notes 36, 37 and 18, respectively.

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

	2022	2021
	RMB'Million	RMB'Million
Share of profit/(loss) of associates, net (Note 21)	(16,379)	(16,592)
Share of profit/(loss) of joint ventures, net (Note 22)	250	148
	<u>(16,129)</u>	<u>(16,444)</u>

Details of the Group's impairment provision for investments in associates and joint ventures are included in Notes 7, 21 and 22.

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 2022 and 2021.

(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 2022 and 2021.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

11 TAXATION (continued)

(a) Income tax expense (continued)

(iii) PRC CIT

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the Mainland of China for the years ended 31 December 2022 and 2021. The general PRC CIT rate was 25% in 2022 and 2021.

Certain subsidiaries of the Company in the Mainland of China were approved as High and New Technology Enterprise, and they were subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2022 and 2021. Moreover, according to announcement and circular issued by relevant government authorities, a subsidiary which was qualified as a national key software enterprise was subject to a preferential corporate income tax rate of 10%.

In addition, certain subsidiaries of the Company were entitled to other tax concessions, mainly including the preferential tax rate of 15% applicable to some subsidiaries located in certain areas of the Mainland of China upon fulfillment of certain requirements of the respective local governments.

(iv) Corporate income tax in other jurisdictions

Income tax on profit arising from other jurisdictions, including the United States, Europe, Asia and South America, had been calculated on the estimated assessable profit for the year at the respective rates prevailing in the relevant jurisdictions, ranging from 9% 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 fulfillment 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 2022

11 TAXATION (continued)

(a) Income tax expense (continued)

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

	2022	2021
	RMB'Million	RMB'Million
Current income tax	24,425	26,039
Deferred income tax (Note 28)	(2,909)	(5,787)
	21,516	20,252

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 (2021: 25%), being the general tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2022	2021
	RMB'Million	RMB'Million
Profit before income tax	210,225	248,062
Share of (profit)/loss of associates and joint ventures, net	16,129	16,444
	226,354	264,506
Tax calculated at a tax rate of 25%	56,588	66,126
Effects of different tax rates applicable to different subsidiaries of the Group	(45,335)	(49,202)
Effects of tax holiday and preferential tax benefits on assessable profits of subsidiaries incorporated in the Mainland of China	(4,641)	(4,945)
Income not subject to tax	(84)	(63)
Expenses not deductible for tax purposes	2,532	1,539
Withholding tax on earnings expected to be remitted by subsidiaries (Note 28)	4,350	1,050
Unrecognised deferred income tax assets	7,992	5,462
Others	114	285
Income tax expense	21,516	20,252





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

11 TAXATION (continued)

(b) Value-added tax and other taxes

The operations of the Group are also mainly subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	6~13%	Sales value of goods sold and services fee income, offset by VAT on purchases
Cultural construction fee	3% (Note (i))	Taxable advertising income
City construction tax	7%	Net VAT payable amount
Educational surcharge	5%	Net VAT payable amount

Note:

- (i) Effective from 1 July 2019 to 31 December 2024, the rate of cultural construction fee has been reduced by 50% in certain regions, while during the period from 1 January 2020 to 31 December 2021, this fee was fully 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.

	2022	2021
Profit attributable to equity holders of the Company (RMB'Million)	<u>188,243</u>	<u>224,822</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,528</u>	<u>9,528</u>
Basic EPS (RMB per share)	<u>19.757</u>	<u>23.597</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

12 EARNINGS PER SHARE (continued)

(b) Diluted

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

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

	2022	2021
Profit attributable to equity holders of the Company (RMB'Million)	188,243	224,822
Dilution effect arising from share-based awards issued by non wholly-owned subsidiaries and associates (RMB'Million)	(740)	(217)
Profit attributable to equity holders of the Company for the calculation of diluted EPS (RMB'Million)	187,503	224,605
Weighted average number of ordinary shares in issue (million shares)	9,528	9,528
Adjustments for share options and awarded shares (million shares)	167	168
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	9,695	9,696
Diluted EPS (RMB per share)	19.341	23.164





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

13 EMPLOYEE BENEFITS EXPENSES

	2022	2021
	RMB'Million	RMB'Million
Wages, salaries and bonuses	70,213	61,058
Share-based compensation expenses	26,248	22,222
Welfare, medical and other expenses (Note)	7,473	6,470
Contributions to pension plans (Note)	7,108	5,630
Training expenses	140	143
	111,182	95,523

Note:

The majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended 31 December 2022 and 2021 are listed below:

	Percentage
Pension insurance	12.0 ~ 20.0%
Medical insurance	5.0 ~ 10.0%
Unemployment insurance	0.25 ~ 1.5%
Housing fund	10.0 ~ 12.0%

Effective from 1 January 2022, additional employee benefits had been provided by the Group to certain employees, including (i) commercial health insurance benefits to certain eligible employees who have completed a required period of service; and (ii) one-off retirement cash bonus upon the retirement of the qualified employees. The financial impacts relating to these additional benefits for the year ended 31 December 2022 were not material.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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:

	2022	2021
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	435,500	464,262
Contributions to pension plans	772	729
Share-based compensation expenses	4,835,839	4,591,385
	5,272,111	5,056,376

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

	Number of individuals	
	2022	2021
Emolument bands		
HKD8,000,000 ~ HKD50,000,000	1	1
HKD50,000,001 ~ HKD200,000,000	3	3
HKD200,000,001 ~ HKD400,000,000	3	3
HKD400,000,001 ~ HKD800,000,000	3	3
HKD1,200,000,001 ~ HKD2,000,000,000	2	2





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

13 EMPLOYEE BENEFITS EXPENSES (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group did not include any director during the year 2022 (2021: did not include any director). All of these individuals have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2022 and 2021. The emoluments paid/payable to the five (2021: five) individuals during the years are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries	35,339	35,290
Bonuses	1,105,178	1,063,362
Contributions to pension plans	16,336	10,455
Share-based compensation expenses	3,013,520	2,884,398
Allowances and benefits in kind	217	163
	<u>4,170,590</u>	<u>3,993,668</u>

The emoluments of the above five individuals (2021: five) fell within the following bands:

	Number of individuals	
	2022	2021
Emolument bands		
HKD536,500,001 ~ HKD537,000,000	2	–
HKD553,000,001 ~ HKD553,500,000	–	2
HKD561,000,001 ~ HKD561,500,000	1	–
HKD590,000,001 ~ HKD590,500,000	–	1
HKD1,504,000,001 ~ HKD1,504,500,000	1	–
HKD1,530,000,001 ~ HKD1,530,500,000	1	–
HKD1,588,500,001 ~ HKD1,589,000,000	–	1
HKD1,599,000,001 ~ HKD1,599,500,000	–	1





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022:

Name of director	Fees	Salaries	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	RMB'000
						(Note (i))	
Ma Huateng (CEO)	1,254	7,103	30,194	128	–	15	38,694
Lau Chi Ping Martin (Note (ii))	1,254	7,353	20,436	–	158,317	99	187,459
Li Dong Sheng (Note (iii))	804	–	–	–	2,981	–	3,785
Ian Charles Stone (Note (ii))	1,072	–	–	–	5,963	–	7,035
Yang Siu Shun (Note (ii))	1,072	–	–	–	5,278	–	6,350
Ke Yang (Note (iii))	804	–	–	–	2,708	–	3,512
Zhang Xiulan	298	–	–	–	274	–	572
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–	–
	<u>6,558</u>	<u>14,456</u>	<u>50,630</u>	<u>128</u>	<u>175,521</u>	<u>114</u>	<u>247,407</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

During the year ended 31 December 2021:

Name of director	Fees	Salaries	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	RMB'000
						(Note (i))	
Ma Huateng (CEO)	1,148	7,331	35,522	110	–	24	44,135
Lau Chi Ping Martin (Note (ii))	1,148	6,949	22,997	–	291,775	99	322,968
Li Dong Sheng (Note (ii))	736	–	–	–	2,908	–	3,644
Ian Charles Stone (Note (ii))	981	–	–	–	5,815	–	6,796
Yang Siu Shun (Note (iii))	981	–	–	–	5,056	–	6,037
Ke Yang (Note (iii))	736	–	–	–	2,298	–	3,034
Iain Ferguson Bruce	462	–	–	–	1,474	–	1,936
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–	–
	<u>6,192</u>	<u>14,280</u>	<u>58,519</u>	<u>110</u>	<u>309,326</u>	<u>123</u>	<u>388,550</u>

Note:

(i) Allowances and benefits in kind include leave pay, insurance premium and club membership.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

Note: (continued)

(ii) The remuneration of several of the Group's directors in payment currencies is set out below:

- Lau Chi Ping Martin: The total remuneration in payment currency was approximately USD27,008,000 in 2022 (2021: USD50,836,000).
- Li Dong Sheng: The total remuneration in payment currency was approximately HKD4,237,000 in 2022 (2021: HKD4,456,000).
- Ian Charles Stone: The total remuneration in payment currency was approximately HKD7,875,000 in 2022 (2021: HKD8,313,000).
- Yang Siu Shun: The total remuneration in payment currency was approximately HKD7,109,000 in 2022 (2021: HKD7,384,000).
- Ke Yang: The total remuneration in payment currency was approximately HKD3,932,000 in 2022 (2021: HKD3,710,000).

(iii) During the year ended 31 December 2022, no options were granted to any executive director of the Company (2021: 3,374,630 options were granted to an executive director of the Company), while 843,657 options and 1,687,315 options previously granted were voluntarily waived by an executive director in February 2022 and November 2022, respectively, and 58,398 awarded shares (excluding the additional 3,182 awarded shares awarded pursuant to adjustments as a result of the distribution in specie of JD.com Shares) were granted to five independent non-executive directors of the Company (2021: 40,500 awarded shares were granted to four independent non-executive directors of the Company).

(iv) No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. Except for stated in (iii) above, no director waived or has agreed to waive any emoluments during the years ended 31 December 2022 and 2021.

(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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(d) Information about loans, quasi-loans and other dealings in favour of directors, their controlled bodies and connected entities

No loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15 DIVIDENDS

(a) Final dividends

The final dividends amounting to HKD15,260 million (2021: HKD15,238 million) were paid during the year ended 31 December 2022.

A final dividend in respect of the year ended 31 December 2022 of HKD2.40 per share (2021: HKD1.60 per share) was proposed pursuant to a resolution passed by the Board on 22 March 2023 and subject to the approval of the shareholders at the 2023 annual general meeting of the Company to be held on 17 May 2023 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

(b) Interim dividend by way of distribution in specie

On 16 November 2022 (the "Declaration Date"), the Board resolved to declare a special interim dividend in the form of a distribution in specie of Class B ordinary shares of Meituan ("Meituan Shares") indirectly held by the Company to the shareholders whose names appeared on the register of members of the Company on 10 January 2023, in proportion to their then respective shareholdings in the Company on the basis of 1 Class B ordinary share of Meituan for every 10 Shares held by the shareholders, being rounded down to the nearest whole number of Class B ordinary shares of Meituan and fractional entitlements to the Meituan Shares will be distributed in the form of cash-in-lieu payment, except that the net proceeds of less than HKD100 will not be distributed. Accordingly, approximately 948 million Class B ordinary shares of Meituan are expected to be distributed after deducting the Meituan Shares to be received as dividends in respect of the Shares held by the Share Scheme Trust and the Shares which have been repurchased but not yet cancelled by the Company as of 10 January 2023 ("Meituan Shares to be distributed"). The Group's equity interests in Meituan would be reduced to approximately 1.7%, following the completion of the Distribution in Specie.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

15 DIVIDENDS (continued)

(b) Interim dividend by way of distribution in specie (continued)

These Meituan Shares to be distributed were classified and presented as “Assets held for distribution” upon the Declaration Date (Note 32(a)).

Dividends payable for distribution in specie of approximately RMB138.4 billion was recognised on the Declaration Date and measured at fair value using the market price of the Meituan Shares to be distributed. Subsequent changes in the fair value of the aforesaid dividends payable as a result of the changes in the fair value of the Meituan Shares to be distributed were recognised in equity as an adjustment to the amount of the dividend distribution until its settlement. Fair value changes on the dividends payable amounting to approximately RMB11.0 billion were recognised in equity since the Declaration Date up to 31 December 2022. As at 31 December 2022, the amount of dividends payable for distribution in specie was approximately RMB148.0 billion.

(c) Settlement of special interim dividend by way of distribution in specie

In relation to the special interim dividend in the form of a distribution in specie of Class A ordinary shares of JD.com, Inc. (“JD.com Shares”), the share certificates of the relevant JD.com Shares under the distribution in specie were dispatched to qualifying shareholders on 25 March 2022 (the “Share Certificate Dispatch Date”).

Dividends payable for distribution in specie was approximately RMB84.6 billion right before the Share Certificate Dispatch Date, measured at fair value using the market price of the JD.com Shares to be distributed. Fair value changes on the dividends payable amounting to approximately RMB17.1 billion from 1 January 2022 to the Share Certificate Dispatch Date were recognised in equity as a result of the changes in the fair value of the JD.com Shares to be distributed.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

16 PROPERTY, PLANT AND EQUIPMENT

	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 2022						
Cost	17,767	102,278	2,545	137	3,860	126,587
Accumulated depreciation and impairment	(4,597)	(55,909)	(1,487)	(61)	(2,264)	(64,318)
Currency translation differences	(58)	(292)	(3)	(1)	(1)	(355)
Net book amount	<u>13,112</u>	<u>46,077</u>	<u>1,055</u>	<u>75</u>	<u>1,595</u>	<u>61,914</u>
Year ended 31 December 2022						
Opening net book amount	13,112	46,077	1,055	75	1,595	61,914
Business combinations	1	48	11	1	33	94
Additions	2,471	9,186	471	25	1,207	13,360
Disposals	–	(124)	(3)	(3)	(30)	(160)
Depreciation	(1,135)	(19,549)	(393)	(29)	(607)	(21,713)
Currency translation differences	84	329	11	–	59	483
Closing net book amount	<u>14,533</u>	<u>35,967</u>	<u>1,152</u>	<u>69</u>	<u>2,257</u>	<u>53,978</u>
At 31 December 2022						
Cost	20,158	103,343	2,966	155	4,981	131,603
Accumulated depreciation and impairment	(5,651)	(67,413)	(1,822)	(85)	(2,782)	(77,753)
Currency translation differences	26	37	8	(1)	58	128
Net book amount	<u>14,533</u>	<u>35,967</u>	<u>1,152</u>	<u>69</u>	<u>2,257</u>	<u>53,978</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2021						
Cost	14,740	86,946	2,196	113	3,165	107,160
Accumulated depreciation and impairment	(3,511)	(40,653)	(1,218)	(42)	(1,854)	(47,278)
Currency translation differences	(1)	(91)	10	(1)	44	(39)
Net book amount	<u>11,228</u>	<u>46,202</u>	<u>988</u>	<u>70</u>	<u>1,355</u>	<u>59,843</u>
Year ended 31 December 2021						
Opening net book amount	11,228	46,202	988	70	1,355	59,843
Business combinations	–	242	25	1	51	319
Additions	3,074	20,946	387	37	705	25,149
Disposals	(53)	(1,508)	(5)	(5)	(10)	(1,581)
Depreciation	(1,080)	(19,602)	(327)	(28)	(460)	(21,497)
Impairment	–	(2)	–	–	(1)	(3)
Currency translation differences	(57)	(201)	(13)	–	(45)	(316)
Closing net book amount	<u>13,112</u>	<u>46,077</u>	<u>1,055</u>	<u>75</u>	<u>1,595</u>	<u>61,914</u>
At 31 December 2021						
Cost	17,767	102,278	2,545	137	3,860	126,587
Accumulated depreciation and impairment	(4,597)	(55,909)	(1,487)	(61)	(2,264)	(64,318)
Currency translation differences	(58)	(292)	(3)	(1)	(1)	(355)
Net book amount	<u>13,112</u>	<u>46,077</u>	<u>1,055</u>	<u>75</u>	<u>1,595</u>	<u>61,914</u>

During the year ended 31 December 2022, depreciation of RMB18,856 million (2021: RMB19,098 million), RMB349 million (2021: RMB257 million) and RMB2,508 million (2021: RMB2,142 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 2022

17 LAND USE RIGHTS

	2022	2021
	RMB'Million	RMB'Million
Opening net book amount	17,728	16,091
Additions	858	2,120
Amortisation	(546)	(484)
Impairment (provision)/reversal	(9)	6
Currency translation differences	15	(5)
Closing net book amount	18,046	17,728

The land use rights mainly represented prepaid operating lease payments in respect of land in the Mainland of China with remaining lease periods of 26 to 48 years.

18 LEASES (EXCLUDING LAND USE RIGHTS)

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

Movement of right-of-use assets (excluding land use rights, disclosed in Note 17) is analysed as follows:

	2022	2021
	RMB'Million	RMB'Million
Opening net book amount	20,468	12,929
Business combinations	171	180
Additions	8,715	12,365
Depreciation	(6,722)	(4,649)
Reduction (Note)	(543)	(177)
Impairment	(3)	(7)
Currency translation differences	438	(173)
Closing net book amount	22,524	20,468

Note:

The reduction of right-of-use assets during the years ended 31 December 2022 and 2021 mainly arose from the early termination and modification of lease contracts.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

18 LEASES (EXCLUDING LAND USE RIGHTS) (continued)

(b) Amounts recognised in consolidated income statement and consolidated statement of cash flows

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

	2022	2021
	RMB'Million	RMB'Million
Depreciation charge of right-of-use assets		
Buildings	3,370	2,203
Computer and other operating equipment	3,320	2,422
Others	30	24
	6,720	4,649
Interest expense (included in finance costs, net)	1,060	719
Expense relating to short-term leases not included in lease liabilities (included in cost of revenues and expenses)	1,741	1,721
Expense relating to variable lease payments not included in lease liabilities (included in cost of revenues and expenses)	5,577	4,947

Some leases of computer and other operating equipment contain variable lease payments. Variable payments are used for a variety of reasons, including managing cash outflows and minimising the fixed costs. Variable lease payments that depend on usage of bandwidth are recognised in profit or loss in the period in which the conditions that trigger those payments occur. Variable lease payments relating to computer and other operating equipment leases during the year ended 31 December 2022 were considered to be insignificant.

The total cash outflow in financing activities for leases during the year ended 31 December 2022 was approximately RMB6,871 million (2021: RMB5,086 million), including principal elements of lease payments of approximately RMB5,969 million (2021: RMB4,423 million) and related interest paid of approximately RMB902 million (2021: RMB663 million), respectively.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

19 CONSTRUCTION IN PROGRESS

	2022	2021
	RMB'Million	RMB'Million
Opening net book amount	5,923	4,939
Additions	5,363	4,173
Transfer to property, plant and equipment	(2,055)	(3,180)
Business combinations	1	1
Disposals	(4)	–
Currency translation differences	1	(10)
Closing net book amount	9,229	5,923

As at 31 December 2022, construction in progress mainly comprised office buildings and data centers under construction located in the PRC.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

20 INTANGIBLE ASSETS

	Goodwill	Computer software and technology	Media content	Trademarks	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2022						
Cost	131,347	12,679	125,114	12,977	9,354	291,471
Accumulated amortisation and impairment	(14,275)	(4,355)	(88,359)	(3,256)	(3,799)	(114,044)
Currency translation differences	(4,899)	(83)	(466)	(446)	(157)	(6,051)
Net book amount	<u>112,173</u>	<u>8,241</u>	<u>36,289</u>	<u>9,275</u>	<u>5,398</u>	<u>171,376</u>
Year ended 31 December 2022						
Opening net book amount	112,173	8,241	36,289	9,275	5,398	171,376
Business combinations (Note 42)	11,152	836	3,968	900	563	17,419
Additions	–	688	22,292	–	45	23,025
Disposals	–	(3)	(2,803)	(8)	(8)	(2,822)
Amortisation	–	(1,640)	(28,893)	(1,111)	(1,051)	(32,695)
Impairment provision	(8,826)	(4,061)	(240)	(1,608)	(2,671)	(17,406)
Currency translation differences	<u>2,232</u>	<u>49</u>	<u>397</u>	<u>142</u>	<u>85</u>	<u>2,905</u>
Closing net book amount	<u>116,731</u>	<u>4,110</u>	<u>31,010</u>	<u>7,590</u>	<u>2,361</u>	<u>161,802</u>
At 31 December 2022						
Cost	142,499	14,179	139,124	13,865	9,948	319,615
Accumulated amortisation and impairment	(23,101)	(10,035)	(108,045)	(5,971)	(7,515)	(154,667)
Currency translation differences	<u>(2,667)</u>	<u>(34)</u>	<u>(69)</u>	<u>(304)</u>	<u>(72)</u>	<u>(3,146)</u>
Net book amount	<u>116,731</u>	<u>4,110</u>	<u>31,010</u>	<u>7,590</u>	<u>2,361</u>	<u>161,802</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

20 INTANGIBLE ASSETS (continued)

	Goodwill	Computer software and technology	Media content	Trademarks	Others	Total
	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million
At 1 January 2021						
Cost	112,090	6,879	107,271	12,015	5,965	244,220
Accumulated amortisation and impairment	(5,573)	(3,251)	(73,366)	(2,183)	(2,891)	(87,264)
Currency translation differences	2,106	(1)	257	168	(49)	2,481
Net book amount	<u>108,623</u>	<u>3,627</u>	<u>34,162</u>	<u>10,000</u>	<u>3,025</u>	<u>159,437</u>
Year ended 31 December 2021						
Opening net book amount	108,623	3,627	34,162	10,000	3,025	159,437
Business combinations	19,259	4,920	1,595	954	3,402	30,130
Additions	–	780	30,759	7	52	31,598
Disposals	(2)	(2)	(1,120)	–	(3)	(1,127)
Amortisation	–	(999)	(28,393)	(1,071)	(967)	(31,430)
Impairment (provision)/reversal	(8,702)	(3)	9	(1)	(3)	(8,700)
Currency translation differences	(7,005)	(82)	(723)	(614)	(108)	(8,532)
Closing net book amount	<u>112,173</u>	<u>8,241</u>	<u>36,289</u>	<u>9,275</u>	<u>5,398</u>	<u>171,376</u>
At 31 December 2021						
Cost	131,347	12,679	125,114	12,977	9,354	291,471
Accumulated amortisation and impairment	(14,275)	(4,355)	(88,359)	(3,256)	(3,799)	(114,044)
Currency translation differences	(4,899)	(83)	(466)	(446)	(157)	(6,051)
Net book amount	<u>112,173</u>	<u>8,241</u>	<u>36,289</u>	<u>9,275</u>	<u>5,398</u>	<u>171,376</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

20 INTANGIBLE ASSETS (continued)

During the year ended 31 December 2022, amortisation of RMB29,511 million (2021: RMB28,595 million) and RMB3,184 million (2021: RMB2,835 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2022, impairment losses of RMB17,265 million (2021: RMB8,713 million) on goodwill and other intangible assets arising from acquisitions were charged to the consolidated income statement under "Other gains/(losses), net", and RMB141 million were charged to (2021: RMB13 million were reversed from) "Cost of revenues".

Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB112,120 million (31 December 2021: RMB101,345 million), Online Advertising segment with RMB468 million (31 December 2021: RMB6,478 million), FinTech and Business Services segment with RMB1,226 million (31 December 2021: RMB1,433 million) and Others segment with RMB2,917 million (31 December 2021: RMB2,917 million).

The Group carries out its impairment testing on goodwill by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts. For the purpose of goodwill impairment review, the recoverable amount of a CGU (or group 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 are as follows:

For goodwill attributable to the Group's online game business within VAS segment, the recoverable amount was determined using fair value less costs of disposal where the fair value was determined as level 3 according to the principle set out in Note 3.3. Fair value less costs of disposal was primarily determined based on ratios of EV (enterprise value) divided by EBITDA of several comparable public companies (range: 13-21x) (2021: range: 15-22x) 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% (2021: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks etc.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

20 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

For goodwill attributable to the Group's online music business and online literature business within VAS segment, FinTech and Business Services segment and television series and film production within Others segment, value in use was calculated using discounted cash flows. The valuations were based on five-year financial projections plus a terminal value related to cash flows beyond the projection period extrapolated at an estimated terminal growth rate of generally not more than 5% (2021: not more than 5%). Pre-tax discount rates of not more than 22% (2021: not more than 22%) were applied, which reflected assessment of time value and specific risks relating to the industries that the Group operates in. Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. Key parameters applied in the financial projections for impairment review purpose also included revenue growth rates, on a compound annual basis, of not more than 25% (2021: not more than 25%).

Management had not identified any reasonably possible change in key assumptions that could cause carrying amounts of the above CGUs (or groups of CGUs) to exceed the recoverable amounts.

In light of the economic, operating environment and market uncertainties at the financial year end, the carrying amounts of the CGUs related to game live streaming business within VAS segment and search advertising business within Online Advertising segment had been reduced to their respective recoverable amounts as a result of the impairment test performed as detailed below.

In the CGU related to game live streaming business, an impairment loss of RMB2,860 million (2021: RMB4,012 million) was recognised and allocated in the order of reducing the carrying amount of goodwill of RMB1,259 million (2021: RMB4,012 million) and then other intangible assets arising from the acquisition of RMB1,601 million (2021: nil).

In the CGU related to search advertising business, an impairment loss of RMB13,049 million (2021: RMB4,500 million) was recognised and allocated in the order of reducing the carrying amount of goodwill of RMB6,478 million (2021: RMB4,500 million) and then other intangible assets arising from the acquisition of RMB6,571 million (2021: nil).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

20 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

The recoverable amounts of the CGUs in game live streaming business and search advertising business were determined using discounted cash flow calculations, which derived from five-year period financial projections with compound annual revenue growth rates of not more than 15% (2021: not more than 15%) plus a terminal value calculated at a growth rate of not more than 5% (2021: not more than 5%). Pre-tax discount rate of not more than 16% (2021: not more than 16%) was applied in the discounted cash flows calculations, which reflected time value of money and the assessment of specific risks of the industry. Estimates used in the projected cash flows mainly included consideration of macroeconomic conditions, company business plans, competitive activities and the discount rate.

If the budgeted revenue growth rate for each year during the forecast period used in game live streaming business' value-in-use calculation had been one percentage point lower than our management's estimates on 31 December 2022, the estimated recoverable amount of the CGU should be lowered by approximately RMB971 million. If the pre-tax discount rate applied to the cash flow projections had been one percentage point higher than our management's estimates on 31 December 2022, the estimated recoverable amount of the CGU should be lowered by approximately RMB362 million. If the terminal growth rate applied had been one percentage point lower than our management's estimates on 31 December 2022, the estimated recoverable amount of the CGU should be lowered by approximately RMB368 million.

If the budgeted revenue growth rate for each year during the forecast period used in search advertising business' value-in-use calculation had been one percentage point lower than our management's estimates on 31 December 2022, the estimated recoverable amount of the CGU should be lowered by approximately RMB1,267 million. If the pre-tax discount rate applied to the cash flow projections had been one percentage point higher than our management's estimates on 31 December 2022, the estimated recoverable amount of the CGU should be lowered by approximately RMB426 million. If the terminal growth rate applied had been one percentage point lower than our management's estimates on 31 December 2022, the estimated recoverable amount of the CGU should be lowered by approximately RMB291 million.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

21 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	125,535	200,785
– Unlisted entities	120,508	115,789
	246,043	316,574

Movement of investments in associates is analysed as follows:

	2022	2021
	RMB'Million	RMB'Million
At beginning of the year	316,574	297,609
Additions (Note (a))	12,713	51,288
Transfers (Note (b) and (c))	(54,438)	(19,731)
Dilution gains on deemed disposal (Note 7(a))	2,763	18,646
Share of profit/(loss) of associates, net (Note 10)	(16,379)	(16,592)
Share of other comprehensive income of associates	2,417	508
Share of other changes in net assets of associates	7,009	8,430
Dividends	(724)	(1,407)
Disposals (Note (b))	(3,853)	(3,238)
Impairment provision, net (Note (d))	(25,689)	(15,391)
Currency translation differences	5,650	(3,548)
At end of the year	246,043	316,574





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

21 INVESTMENTS IN ASSOCIATES (continued)

Note:

(a) During the year ended 31 December 2022, the Group's additions to investments in associates comprised the following:

- (i) a new investment in an overseas investment holding company at a consideration of approximately EUR300 million (equivalent to approximately RMB2,132 million), which in turn owns equity interests of a listed company engaged in games development; and
- (ii) new associates and additional investments in existing associates with an aggregate amount of approximately RMB10,581 million during the year ended 31 December 2022, which are principally engaged in games development, FinTech, High-tech manufacturing, comic development and other Internet-related businesses.

(b) On 4 January 2022, the Group entered into a transaction to divest an aggregate of 14,492,751 Class A ordinary shares of Sea with a carrying amount of approximately RMB825 million, and to convert all its supervoting Class B ordinary shares to Class A ordinary shares (collectively, the "Transaction"). Upon the completion of the Transaction, the Group's equity interests in Sea was reduced from 21.3% to 18.7% with its voting power reduced to less than 10%, and a disposal gain of approximately RMB18,481 million was recognised in "Other gains/(losses), net" (Note 7(a)(ii)).

On 5 September 2022, the Group's representative resigned from the board of Sea, and the Group granted an irrevocable voting proxy with respect to all its Sea shares to the board of Sea on shareholder matters. As a result, the entire investment in Sea with a carrying amount of approximately RMB4,622 million was transferred from investment in an associate to a financial instrument and the Group irrevocably designated it as FVOCI with step down gain of approximately RMB41,293 million recognised in "Other gains/(losses), net" (Note 7(a)(ii)).

(c) During the year ended 31 December 2022, the Group's transfers mainly comprised the entire investment in Meituan of the Group with a carrying amount of approximately RMB50,658 million transferred from investment in an associate to a financial instrument as a result of resignation of board representative in November 2022, and the Group irrevocably designated it as FVOCI (Note 25(a)(v)) with step down gain of approximately RMB106,555 million recognised in "Other gains/(losses), net" (Note 7(a)(i)).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

21 INVESTMENTS IN ASSOCIATES (continued)

Note: (continued)

- (d) Both external and internal sources of information of associates are considered in assessing whether there is any indicator that the investments may be impaired, including but not limited to information about financial position and business performance of the associates, and a significant or prolonged decline in the fair value of an investment below its carrying amount is also objective evidence of impairment. The Group carries out impairment assessment on those investments with impairment indicators, 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 are based on cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rates, profit margins and discount rates. In respect of the recoverable amount based on fair value less costs of disposal, the amount is calculated with reference to their respective market prices or using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

During the year ended 31 December 2022, an aggregate impairment loss of approximately RMB25,689 million (2021: RMB15,391 million) had been recognised for associates with impairment indicators. Majority of these associates were listed companies, and their recoverable amounts were determined using fair value less costs of disposal based on their respective level 1 market prices according to the principle set out in Note 3.3.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

21 INVESTMENTS IN ASSOCIATES (continued)

The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with those of the Group.

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of its stakes in the associates which are listed entities, are shown in aggregate as follows:

	Assets	Liabilities	Revenues	Profit/(loss) from continuing operation	Other comprehensive income	Total comprehensive income	Fair value of stakes in listed associates as at 31 December
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
2022							
Listed entities (Note)	230,845	105,310	126,405	(4,594)	2,990	(1,604)	264,090
Non-listed entities	324,940	204,432	60,229	(11,785)	(573)	(12,358)	
	<u>555,785</u>	<u>309,742</u>	<u>186,634</u>	<u>(16,379)</u>	<u>2,417</u>	<u>(13,962)</u>	
2021							
Listed entities (Note)	351,357	150,572	285,557	(13,956)	157	(13,799)	634,661
Non-listed entities	292,195	176,406	54,369	(2,636)	351	(2,285)	
	<u>643,552</u>	<u>326,978</u>	<u>339,926</u>	<u>(16,592)</u>	<u>508</u>	<u>(16,084)</u>	

Note:

As at 31 December 2022 and 2021, listed entities of the investments in associates consisted of directly and indirectly held listed equity interests.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

21 INVESTMENTS IN ASSOCIATES (continued)

Management had assessed the level of influence that the Group was able to exercise 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 RMB142,323 million and RMB19,615 million as at 31 December 2022, respectively (31 December 2021: RMB214,927 million and RMB18,675 million, respectively). Management had determined that it had significant influence thereon through the board of directors representation or other arrangements made, but it had no control or joint control over such investees since the Group had no power to direct or jointly direct relevant activities due to other arrangements made. Consequently, these investments had 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 2022, the Group's investments in joint ventures of RMB6,672 million (31 December 2021: RMB6,614 million) mainly comprised an investee company that is a special purpose vehicle of which the Group has a majority stake for the investment in one of the telecommunication carriers in the PRC and other joint venture initiatives in entertainment-related businesses.

Share of profit amounting to RMB250 million and dilution gain due to new equity interests being issued amounting to RMB30 million were recognised during the year ended 31 December 2022 (2021: share of profit: RMB148 million; dilution gain: nil) (Note 10 and Note 7(a)).

During the year ended 31 December 2022, the Group made an aggregate impairment provision of RMB3 million (2021: RMB904 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 2022

23 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2022, the financial instruments of the Group are analysed as follows:

	As at 31 December	
	2022	2021
Financial assets	RMB'Million	RMB'Million
Financial assets at amortised cost:		
Deposits and other receivables (Note 26)	39,643	32,682
Term deposits (Note 29)	133,112	103,304
Accounts receivable (Note 30)	45,467	49,331
Cash and cash equivalents (Note 31(a))	156,739	167,966
Restricted cash (Note 31(b))	2,783	2,476
Other financial assets (Note 27)	995	1,284
Financial assets at fair value:		
FVPL (Note 24)	234,048	202,757
FVOCI (Note 25)	185,247	250,257
Assets held for distribution (Note 32)	147,965	102,451
Other financial assets (Note 27)	7,270	1,726
	953,269	914,234
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings (Note 36)	175,248	155,939
Notes payable (Note 37)	159,115	145,590
Long-term payables	6,867	9,966
Other financial liabilities (Note 39)	6,204	6,664
Accounts payable (Note 40)	92,381	109,470
Lease liabilities	24,778	21,947
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 41)	32,659	31,220
Financial liabilities at fair value:		
Other financial liabilities (Note 39)	3,307	2,802
Financial liabilities measured according to IFRIC 17:		
Dividends payable for distribution in specie (Note 15(b))	147,965	102,451
	648,524	586,049





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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	
	2022	2021
	RMB'Million	RMB'Million
Included in non-current assets:		
Investments in listed entities	12,443	19,802
Investments in unlisted entities	187,502	163,382
Treasury investments and others	6,140	9,000
	206,085	192,184
Included in current assets:		
Investments in listed entities	2	4
Treasury investments and others	27,961	10,569
	27,963	10,573
	234,048	202,757





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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

Movement of FVPL is analysed as follows:

	2022	2021
	RMB'Million	RMB'Million
At beginning of the year	202,757	172,537
Additions and transfers (Note (a))	45,206	23,240
Changes in fair value (Note 7)	(7,117)	47,560
Disposals and others	(22,926)	(34,282)
Currency translation differences	16,128	(6,298)
At end of the year	234,048	202,757

Note:

(a) During the year ended 31 December 2022, the Group's additions and transfers mainly comprised the following:

- (i) new investments and additional investments with an aggregate amount of approximately RMB50,459 million in listed and unlisted entities, treasury investments and others. These investee companies are principally engaged in social media platforms, local services, eCommerce, and other Internet-related businesses; and
- (ii) an existing investee company engaged in Online-To-Offline service platform with an amount of approximately RMB4,390 million had been redesignated as FVOCI upon the conversion of its preferred shares into ordinary shares upon its IPO.

Management had assessed the level of influence that the Group was able to exercise on certain FVPL with shareholding exceeding 20%. Since these investments were either held in the form of redeemable instruments or interests in limited partnerships without significant influence, these investments had been classified as FVPL.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Equity investments in listed entities	159,861	227,788
Equity investments in unlisted entities	22,838	22,392
Treasury investments	2,548	77
	185,247	250,257

Movement of FVOCI is analysed as follows:

	2022	2021
	RMB'Million	RMB'Million
At beginning of the year	250,257	213,091
Additions and transfers (Note (a))	80,325	93,211
Changes in fair value	(148,169)	(16,834)
Disposals	(9,191)	(33,555)
Currency translation differences	12,025	(5,656)
At end of the year	185,247	250,257

Note:

- (a) During the year ended 31 December 2022, except as described in Note 21(b) and Note 24(a)(ii), the Group's additions and transfers mainly comprised the following:
- (i) additional investment in a listed entity engaged in social network platform of approximately USD851 million (equivalent to approximately RMB5,693 million);
 - (ii) new investments and additional investments with an aggregate amount of approximately RMB8,717 million, which included treasury investments and investee companies principally engaged in games development and other Internet-related businesses;
 - (iii) an existing investee company with a carrying amount of approximately RMB1,757 million had been transferred from investment in an associate to FVOCI as a result of resignation of board representative in that associate;
 - (iv) an existing investee company engaged in games development with a carrying amount of approximately RMB657 million had been transferred from FVOCI to a subsidiary upon completion of a business combination (Note 42); and
 - (v) transfer from investment in an associate in relation to the Class B ordinary shares of Meituan held by the Group to the extent of approximately RMB15.5 billion (Note 21(c)) (other than those held by the Group for distribution in specie of approximately RMB138.4 billion that were subsequently presented as "Assets held for distribution" (Note 32(a))).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

26 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media content and game licences	17,260	18,518
Prepayments for capital transactions	6,133	6,717
Loans to investees and investees' shareholders (Note (a))	4,796	4,058
Running royalty fees for online games (Note (b))	464	445
Others	8,099	7,439
	36,752	37,177
Included in current assets:		
Prepayments and prepaid expenses	24,393	18,714
Running royalty fees for online games (Note (b))	15,939	15,795
Receivables related to financial services	15,807	10,343
Interest receivables	6,504	5,604
Refundable VAT	1,524	1,151
Lease and other deposits	1,258	1,290
Loans to investees and investees' shareholders (Note (a))	1,233	1,154
Dividend and other investment-related receivables	832	1,128
Others	9,195	10,211
	76,685	65,390
	113,437	102,567

Note:

- (a) As at 31 December 2022, the balances of loans to investees and investees' shareholders were mainly repayable within a period of one to eight years (included in non-current assets), or within one year (included in current assets), and were interest-bearing at rates of not higher than 10.0% per annum (31 December 2021: 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.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

26 PREPAYMENTS, DEPOSITS AND OTHER ASSETS (continued)

As at 31 December 2022, loss allowance subject to the expected credit loss model made against the gross amounts of deposits and other assets amounted to RMB2,863 million.

As at 31 December 2022 and 2021, the carrying amounts of prepayments, deposits and other assets (excluding prepayments and refundable VAT) approximated their fair values.

27 OTHER FINANCIAL ASSETS

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Measured at amortised cost:		
Treasury investments	<u>995</u>	<u>1,284</u>
Measured at fair value:		
Interest rate swap (Note)	<u>6,968</u>	<u>1,253</u>
Others	<u>302</u>	<u>473</u>
	<u>7,270</u>	<u>1,726</u>
	<u>8,265</u>	<u>3,010</u>
Included in:		
Non-current assets	<u>6,987</u>	<u>1,261</u>
Current assets	<u>1,278</u>	<u>1,749</u>
	<u>8,265</u>	<u>3,010</u>

Note:

The Group's outstanding interest rate swap contracts were measured at fair value to hedge the exposure arising from certain borrowings and senior notes carried at floating rates. As at 31 December 2022, the aggregate notional principal amounts of these outstanding interest rate swap contracts were USD14,848 million (equivalent to approximately RMB103,410 million) (31 December 2021: USD13,598 million (equivalent to approximately RMB86,697 million)).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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.

Deferred income tax assets/liabilities are analysed as follows:

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Gross deferred income tax assets:		
– to be recovered after more than 12 months	22,628	17,878
– to be recovered within 12 months	12,188	12,966
	<u>34,816</u>	<u>30,844</u>
Set-off of deferred income tax assets pursuant to set-off provisions	<u>(4,934)</u>	<u>(4,776)</u>
Net deferred income tax assets	<u>29,882</u>	<u>26,068</u>
Gross deferred income tax liabilities:		
– to be recovered after more than 12 months	(16,101)	(16,619)
– to be recovered within 12 months	(995)	(1,299)
	<u>(17,096)</u>	<u>(17,918)</u>
Set-off of deferred income tax liabilities pursuant to set-off provisions	<u>4,934</u>	<u>4,776</u>
Net deferred income tax liabilities	<u>(12,162)</u>	<u>(13,142)</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

28 DEFERRED INCOME TAXES (continued)

The movements of the deferred income tax assets/liabilities account before offsetting are as follows:

	Deferred income tax assets RMB'Million	Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2022	30,844	(17,918)	12,926
Business combinations	50	(1,258)	(1,208)
Credited/(charged) to consolidated income statement (Note 11)	3,162	(253)	2,909
Withholding taxes paid	–	3,250	3,250
Credited/(charged) to consolidated statement of changes in equity	459	(1,028)	(569)
Transfer upon disposal and deemed disposal of financial instruments	(140)	372	232
Currency translation differences	441	(261)	180
At 31 December 2022	34,816	(17,096)	17,720
	Deferred income tax assets RMB'Million	Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2021	25,005	(19,718)	5,287
Business combinations	116	(2,541)	(2,425)
Credited to consolidated income statement (Note 11)	5,555	232	5,787
Withholding taxes paid	–	3,313	3,313
Credited to consolidated statement of changes in equity	247	421	668
Currency translation differences	(79)	375	296
At 31 December 2021	30,844	(17,918)	12,926





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax assets before offsetting are as follows:

	Deferred income tax assets on temporary differences arising from				
	Accelerated	Tax losses	Accrued	Share-based	Total
	amortisation			payments	
	of intangible			and others	
	assets	RMB'Million	expenses	RMB'Million	RMB'Million
	RMB'Million	(Note)	RMB'Million		
At 1 January 2022	8,267	1,707	12,022	8,848	30,844
Business combinations	–	22	–	28	50
Credited/(charged) to consolidated income statement	1,451	1,958	(1,726)	1,479	3,162
Credited to consolidated statement of changes in equity	–	–	–	459	459
Transfer upon disposal and deemed disposal of financial instruments	–	–	–	(140)	(140)
Currency translation differences	–	(32)	197	276	441
At 31 December 2022	9,718	3,655	10,493	10,950	34,816
At 1 January 2021	7,167	297	10,458	7,083	25,005
Business combinations	13	–	84	19	116
Credited to consolidated income statement	1,087	1,374	1,480	1,614	5,555
Credited to consolidated statement of changes in equity	–	–	–	247	247
Currency translation differences	–	36	–	(115)	(79)
At 31 December 2021	8,267	1,707	12,022	8,848	30,844

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable profits will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2022, the Group did not recognise deferred income tax assets of RMB7,343 million (31 December 2021: RMB2,922 million) in respect of cumulative tax losses amounting to RMB39,683 million (31 December 2021: RMB13,412 million). These tax losses in the Mainland of China will expire from 2023 to 2032.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax liabilities before offsetting are as follows:

Deferred income tax liabilities on temporary differences arising from						
	Intangible assets acquired in business combinations	Withholding tax on the earnings anticipated to be remitted by subsidiaries	Changes in fair value of FVPL and FVOCI	Deemed disposals of investees	Accelerated tax depreciation	Others
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2022	(6,425)	(3,926)	(2,827)	(963)	(3,655)	(122)
Business combinations	(1,258)	–	–	–	–	–
Credited/(charged) to consolidated income statement	3,080	(4,350)	138	(293)	1,266	(94)
Withholding tax paid	–	3,250	–	–	–	–
Charged to consolidated statement of changes in equity	–	–	(1,028)	–	–	–
Transfer upon disposal and deemed disposal of financial instruments	–	–	372	–	–	–
Currency translation differences	(81)	(15)	(80)	–	(16)	(69)
At 31 December 2022	(4,684)	(5,041)	(3,425)	(1,256)	(2,405)	(285)
At 1 January 2021	(4,896)	(6,188)	(3,561)	(928)	(3,845)	(300)
Business combinations	(2,541)	–	–	–	–	–
Credited/(charged) to consolidated income statement	962	(1,050)	263	(35)	190	(98)
Withholding tax paid	–	3,313	–	–	–	–
Credited to consolidated statement of changes in equity	–	–	421	–	–	–
Currency translation differences	50	(1)	50	–	–	276
At 31 December 2021	(6,425)	(3,926)	(2,827)	(963)	(3,655)	(122)





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

28 DEFERRED INCOME TAXES (continued)

As at 31 December 2022, the Group recognised the relevant deferred income tax liabilities of RMB5,041 million (31 December 2021: RMB3,926 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 RMB107,316 million (31 December 2021: RMB96,262 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	
	2022	2021
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	27,970	19,473
Other currencies	366	18
	<u>28,336</u>	<u>19,491</u>
Included in current assets:		
RMB term deposits	49,412	55,810
USD term deposits	55,248	24,039
Other currencies	116	3,964
	<u>104,776</u>	<u>83,813</u>
	<u>133,112</u>	<u>103,304</u>

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2022, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

30 ACCOUNTS RECEIVABLE

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Accounts receivable from contracts with agents/customers	52,003	53,460
Loss allowance	(6,536)	(4,129)
	<u>45,467</u>	<u>49,331</u>

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

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
0 ~ 30 days	25,279	21,639
31 ~ 60 days	9,247	13,255
61 ~ 90 days	6,545	6,105
Over 90 days	4,396	8,332
	<u>45,467</u>	<u>49,331</u>

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





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

30 ACCOUNTS RECEIVABLE (continued)

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

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
FinTech and cloud customers	16,421	19,548
Online advertising customers and agents	13,787	13,751
Third party platform providers	5,658	6,087
Content production related customers	3,550	4,324
Others	6,051	5,621
	45,467	49,331

Some online advertising customers and agents are usually granted with a credit period within 30 to 90 days immediately following the month-end in which the relevant obligations under the relevant contracted advertising orders are delivered. Third party platform providers usually settle the amounts due by them within 60 days. Other customers, mainly including content production related customers and FinTech and cloud customers, are usually granted with a credit period within 90 days.

The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The historical observed default rates are updated and changes in the forward-looking estimates are analysed at year end. For the years ended 31 December 2022 and 2021, information about the impairment of accounts receivable and the Group's exposure to credit risk and foreign exchange risk can be found in Note 3.1.

As at 31 December 2022, the carrying amounts of the accounts receivable approximated their fair values.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

31 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Bank balances and cash	104,767	84,810
Term deposits and highly liquid investments with initial terms within three months	51,972	83,156
	156,739	167,966

Approximately RMB96,849 million (31 December 2021: RMB78,322 million) within the total balance of the Group's cash and cash equivalents was denominated in RMB.

(b) Restricted cash

As at 31 December 2022, restricted deposits held at banks of RMB2,783 million (31 December 2021: RMB2,476 million) were mainly denominated in RMB, the majority of which were reserves provided for certain licensed business under regulatory requirements.

32 ASSETS HELD FOR DISTRIBUTION

(a) Assets held for distribution regarding Meituan Shares

As at 31 December 2022, assets held for distribution represented the Meituan Shares to be distributed under the Distribution in Specie held by the Group as the interim dividend declared on 16 November 2022 (Note 15(b) and Note 25(a)(v)).

On the Declaration Date, the Meituan Shares to be distributed of approximately RMB138.4 billion designated as FVOCI were measured at fair value and subsequently presented as assets held for distribution. Subsequent fair value gains of the Meituan Shares to be distributed amounting to approximately RMB11.0 billion were recorded in other comprehensive income during the year ended 31 December 2022. As at 31 December 2022, the carrying amount of assets held for distribution amounted to RMB148.0 billion.

(b) Assets held for distribution regarding JD.com Shares

As at 31 December 2021, assets held for distribution represented the JD.com Shares held by the Group to be distributed in specie as the interim dividend declared on 23 December 2021. Fair value losses amounting to approximately RMB17.1 billion from 1 January 2022 to the Share Certificate Dispatch Date were recorded in other comprehensive income as a result of the changes in the fair value of the JD.com Shares to be distributed.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

33 SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES AND SHARES HELD FOR SHARE AWARD SCHEMES

As at 31 December 2022 and 2021, the authorised share capital of the Company comprised 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	Treasury shares RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2022	9,608,378,469	–	67,330	–	(4,843)	62,487
Employee share option schemes:						
– value of employee services	–	–	2,055	–	–	2,055
– shares issued (Note (a))	6,806,825	–	995	–	–	995
Employee share award schemes:						
– value of employee services	–	–	20,632	–	–	20,632
– shares withheld for share award schemes (Note (b))	–	–	–	–	(2,882)	(2,882)
– shares allotted for share award schemes (Note (c))	54,196,641	–	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(2,882)	–	2,882	–
Repurchase and cancellation of shares (Note (e))	(100,643,000)	–	(28,010)	–	–	(28,010)
Repurchase of shares (to be cancelled) (Note (e))	–	–	–	(1,868)	–	(1,868)
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	2,298	–	617	2,915
At 31 December 2022	9,568,738,935	–	62,418	(1,868)	(4,226)	56,324





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

33 SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES 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 2021	9,593,912,711	–	48,793	(4,412)	44,381
Employee share option schemes:					
– value of employee services	–	–	1,661	–	1,661
– shares issued (Note (a))	4,834,315	–	1,043	–	1,043
Employee share award schemes:					
– value of employee services	–	–	18,347	–	18,347
– shares withheld for share award schemes (Note (b))	–	–	–	(2,827)	(2,827)
– shares allotted for share award schemes (Note (c))	15,213,243	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(2,090)	2,090	–
Repurchase and cancellation of shares (Note (e))	(5,581,800)	–	(2,170)	–	(2,170)
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	1,746	306	2,052
At 31 December 2021	<u>9,608,378,469</u>	<u>–</u>	<u>67,330</u>	<u>(4,843)</u>	<u>62,487</u>

* As at 31 December 2022, the total number of issued ordinary shares of the Company included 79,489,557 shares (31 December 2021: 69,902,440 shares) held under the Share Award Schemes.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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

Note:

- (a) During the year ended 31 December 2022, 6,806,825 Post-IPO options (2021: 4,834,315 Post-IPO options) with exercise prices ranging from HKD135.50 to HKD386.60 (2021: HKD116.40 to HKD546.50) per share were exercised.
- (b) During the year ended 31 December 2022, the Share Scheme Trust withheld 9,341,643 ordinary shares (2021: 5,921,232 ordinary shares) of the Company for an amount of approximately HKD3,408 million (equivalent to approximately RMB2,882 million) (2021: HKD3,394 million (equivalent to approximately RMB2,827 million)), which had been deducted from the equity.
- (c) During the year ended 31 December 2022, the Company allotted 54,196,641 ordinary shares (2021: 15,213,243 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 2022, the Share Scheme Trust transferred 53,951,167 ordinary shares of the Company (2021: 32,749,222 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 35(b)).
- (e) During the year ended 31 December 2022, the Company repurchased 107,083,000 of its own shares from the market, out of which, 6,440,000 had not been cancelled as at 31 December 2022 and had been subsequently cancelled in January 2023 (2021: the Company repurchased 5,581,800 of its own shares from the market which had been cancelled as at 31 December 2021). The shares were repurchased at prices ranging from HKD246.20 to HKD477.40 per share, with an average price of HKD315.59 per share.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

34 OTHER RESERVES

	Capital reserves	FVOCI	Investments in associates and joint ventures	Currency translation differences	PRC statutory reserves	Share-based compensation reserves	Others	Total
	RMB'Million (Note (a))	RMB'Million (Note (b))	RMB'Million	RMB'Million	RMB'Million (Note (c))	RMB'Million (Note (d))	RMB'Million	RMB'Million
Balance at 1 January 2022	(32,684)	102,223	14,743	(23,903)	4,929	8,004	589	73,901
Transfer of losses on disposal and deemed disposal of financial instruments to retained earnings	-	7,838	-	-	-	-	-	7,838
Share of other changes in net assets of associates and joint ventures	-	-	7,009	-	-	-	-	7,009
Transfer of share of other changes in net assets of associates and joint ventures to profit or loss upon disposal and deemed disposal	-	-	(5,541)	-	-	-	-	(5,541)
Transfer of share of other comprehensive income to retained earnings upon disposal and deemed disposal of associates and joint ventures	-	-	7	-	-	-	-	7
Transfer to profit or loss upon disposal of FVOCI	-	11	-	-	-	-	-	11
Value of employee services:								
– Employee share option schemes	-	-	-	-	-	110	-	110
– Employee share award schemes	-	-	-	-	-	1,425	-	1,425
Tax benefit from share-based payments	-	-	-	-	-	5	-	5
Acquisition of additional equity interests in non wholly-owned subsidiaries	992	-	-	-	-	-	-	992
Transfer of equity interests of subsidiaries to non-controlling interests	179	-	-	-	-	-	-	179
Recognition of put option liabilities arising from business combinations	(175)	-	-	-	-	-	-	(175)
Changes in put option liabilities in respect of non-controlling interests	727	-	-	-	-	-	-	727
Dilution of interests in subsidiaries	(929)	-	-	-	-	-	-	(929)
Profit appropriations to statutory reserves	-	-	-	-	1,082	-	-	1,082
Net losses from changes in fair value of FVOCI	-	(146,500)	-	-	-	-	-	(146,500)
Share of other comprehensive income of associates and joint ventures	-	-	2,337	-	-	-	-	2,337
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates and joint ventures	-	-	(129)	-	-	-	-	(129)
Currency translation differences	-	-	-	17,494	-	-	-	17,494
Other fair value gains, net	-	-	-	-	-	-	5,345	5,345
Net losses from changes in fair value of assets held for distribution	-	(6,102)	-	-	-	-	-	(6,102)
Balance at 31 December 2022	(31,890)	(42,530)	18,426	(6,409)	6,011	9,544	5,934	(40,914)





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

34 OTHER RESERVES (continued)

	Capital reserves	FVOCI	Investments in associates and joint ventures	Currency translation differences	PRC statutory reserves	Share-based compensation reserves	Others	Total
	RMB'Million (Note (a))	RMB'Million (Note (b))	RMB'Million	RMB'Million	RMB'Million (Note (c))	RMB'Million (Note (d))	RMB'Million	RMB'Million
Balance at 1 January 2021	(27,238)	134,309	10,918	(5,871)	4,260	6,878	(2,117)	121,139
Transfer of gains on disposal and deemed disposal of financial instruments to retained earnings	-	(22,393)	-	-	-	-	-	(22,393)
Share of other changes in net assets of associates and joint ventures	-	-	8,429	-	-	-	-	8,429
Transfer of share of other changes in net assets of associates and joint ventures to profit or loss upon disposal and deemed disposal	-	-	(5,089)	-	-	-	-	(5,089)
Transfer of share of other comprehensive income to retained earnings upon disposal and deemed disposal of associates and joint ventures	-	-	(35)	-	-	-	-	(35)
Value of employee services:								
- Employee share option schemes	-	-	-	-	-	53	-	53
- Employee share award schemes	-	-	-	-	-	611	-	611
Tax benefit from share-based payments	-	-	-	-	-	462	-	462
Acquisition of additional equity interests in non wholly-owned subsidiaries	(4,305)	-	-	-	-	-	-	(4,305)
Transfer of equity interests of subsidiaries to non-controlling interests	(2,323)	-	-	-	-	-	-	(2,323)
Recognition of put option liabilities arising from business combinations	(1,289)	-	-	-	-	-	-	(1,289)
Changes in put option liabilities in respect of non-controlling interests	1,483	-	-	-	-	-	-	1,483
Dilution of changes in interests in subsidiaries	205	-	-	-	-	-	-	205
Profit appropriations to statutory reserves	-	-	-	-	669	-	-	669
Net losses from changes in fair value of FVOCI	-	(15,073)	-	-	-	-	-	(15,073)
Share of other comprehensive income of associates and joint ventures	-	-	512	-	-	-	-	512
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates and joint ventures	-	-	8	-	-	-	-	8
Currency translation differences	-	-	-	(18,032)	-	-	-	(18,032)
Lapses of put option liability in respect of non-controlling interests	783	-	-	-	-	-	-	783
Other fair value gains, net	-	-	-	-	-	-	2,706	2,706
Gain from changes in fair value of assets held for distribution	-	5,380	-	-	-	-	-	5,380
Balance at 31 December 2021	(32,684)	102,223	14,743	(23,903)	4,929	8,004	589	73,901



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

34 OTHER RESERVES (continued)

Note:

- (a) The capital reserve mainly arises from transactions undertaken with non-controlling interests.
- (b) The Group elects to recognise changes in the fair value of certain investments in other comprehensive income. These changes are accumulated with FVOCI reserve within equity. When the relevant investments are derecognised, amounts from this reserve are transferred to retained earnings for equity instruments or to profit or loss for debt instruments.
- (c) 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, further transfer needs not 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, further transfer needs not 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.
- (d) Share-based compensation reserve arises from share option schemes and share award schemes adopted by certain subsidiaries of the Group (Note 35(d)).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

35 SHARE-BASED PAYMENTS

(a) Share option schemes

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

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III expired on 31 December 2011, 23 March 2014, 16 May 2017 and 13 May 2019, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes. As at 31 December 2022, 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 years ended 31 December 2022 and 2021, the Company allowed certain of the grantees under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV to surrender their rights to receive a portion of the underlying shares (with equivalent fair value) to set off against the exercise price and/or individual income tax payable when they exercised their options.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

35 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme IV		Total
	Average	Number of	Average	Number of	Number of
	exercise price	options	exercise price	options	options
At 1 January 2022 (Note)	HKD191.64	35,146,117	HKD402.75	81,689,281	116,835,398
Granted	–	–	HKD353.22	12,778,815	12,778,815
Exercised	HKD146.28	(5,862,075)	HKD279.99	(944,750)	(6,806,825)
Lapsed/forfeited/waived	HKD135.50	(22,176)	HKD557.65	(3,361,436)	(3,383,612)
At 31 December 2022	HKD200.77	29,261,866	HKD391.24	90,161,910	119,423,776
Exercisable as at 31 December 2022	HKD200.73	29,152,491	HKD382.60	43,255,764	72,408,255
At 1 January 2021	HKD205.36	37,435,134	HKD380.50	67,806,750	105,241,884
Granted	–	–	HKD587.26	16,785,250	16,785,250
Exercised	HKD189.79	(2,278,079)	HKD321.25	(2,556,236)	(4,834,315)
Lapsed/forfeited	HKD124.30	(10,938)	HKD429.76	(346,483)	(357,421)
At 31 December 2021	HKD206.40	35,146,117	HKD424.63	81,689,281	116,835,398
Exercisable as at 31 December 2021	HKD206.36	35,024,304	HKD381.54	30,418,848	65,443,152

Note:

As a result of the distribution in specie of JD.com Shares, pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, adjustments had been made to the exercise prices of the outstanding share options thereunder as at 20 January 2022, and were reflected in the average exercise prices of related outstanding share options listed above.

As a result of the distribution in specie of Meituan Shares (Note 15(b)), pursuant to the scheme rules of the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, adjustments had been made to the exercise prices of the outstanding share options thereunder as at 5 January 2023. Such adjustments had not been reflected in the average exercise prices of related outstanding share options listed above and were expected to be reflected during the year ending 31 December 2023.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

35 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options (continued)

During the year ended 31 December 2022, no options were granted to any executive director of the Company (2021: 3,374,630 options were granted to an executive director of the Company), while 843,657 options and 1,687,315 options previously granted were voluntarily waived by an executive director in February 2022 and November 2022, respectively.

During the year ended 31 December 2022, 6,806,825 options (2021: 4,834,315 options) were exercised. The weighted average price of the shares at the time these options were exercised was HKD305.94 per share (equivalent to approximately RMB269.73 per share) (2021: HKD559.01 per share (equivalent to approximately RMB464.92 per share)).

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2022 and 2021 are as follows:

Expiry Date	Range of exercise price	Number of share options	
		31 December 2022	31 December 2021
7 years commencing from	HKD135.50 ~ HKD161.46	4,234,341	10,018,592
the date of grant of options	HKD210.04 ~ HKD272.36	28,870,121	29,843,566
(Post-IPO Option Scheme II and	HKD312.60 ~ HKD386.60	48,748,226	36,419,658
Post-IPO Option Scheme IV)	HKD387.06 ~ HKD423.29	22,143,949	22,179,659
	HKD474.15 ~ HKD557.52	9,394,340	9,797,440
	HKD574.88 ~ HKD618.00	6,032,799	8,576,483
		119,423,776	116,835,398

The outstanding share options as of 31 December 2022 were divided into one to four tranches at their grant dates. The first tranche can be exercised after a specified period ranging from one month to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

35 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company had used the Binomial Model to determine the fair value of the options as at the respective grant dates, which was to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2022 was HKD113.60 per share (equivalent to approximately RMB94.75 per share) (2021: HKD178.35 per share (equivalent to approximately RMB149.72 per share)).

Other than the exercise price mentioned above, significant judgments on parameters, such as risk-free rate, dividend yield and expected volatility, were required to be made by the directors in applying the Binomial Model, which are summarised as below.

	2022	2021
Weighted average share price at the grant date	HKD342.95	HKD582.94
Risk-free rate	2.11% ~ 2.56%	0.94%~1.35%
Dividend yield	0.25%	0.23%
Expected volatility (Note)	34.00%	31.00%~32.00%

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 2022

35 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted three share award schemes (the “Share Award Schemes”), out of which, the 2007 Share Award Scheme expired on 13 December 2022. The Share Award Schemes are administered by an independent trustee appointed by the Group, and 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 2022 and 2021 are as follows:

	Number of awarded shares	
	2022	2021
At beginning of the year	121,314,396	82,594,936
Granted (Note)	65,174,957	77,054,748
Lapsed/forfeited	(8,677,008)	(5,586,066)
Vested and transferred	(53,951,167)	(32,749,222)
At end of the year	123,861,178	121,314,396
Vested but not transferred as at the end of the year	13,767	17,515

Note:

As a result of the distribution in specie of JD.com Shares, pursuant to the scheme rules of the 2013 Share Award Scheme and the 2019 Share Award Scheme, adjustments had been made to the number of shares subject to share awards which remained unvested as at 20 January 2022. The number of awarded shares granted for the year ended 31 December 2022 included a total of 3,606,234 additional awarded shares which were awarded pursuant to such adjustments.

As a result of the distribution in specie of Meituan Shares (Note 15(b)), pursuant to the scheme rules of the 2013 Share Award Scheme and the 2019 Share Award Scheme, adjustments had been made to the number of shares subject to share awards which remained unvested as at 5 January 2023. Such adjustments would be reflected as additional awarded shares during the year ending 31 December 2023.

During the year ended 31 December 2022, 58,398 awarded shares (excluding the additional 3,182 awarded shares awarded pursuant to adjustments as a result of the distribution in specie of JD.com Shares) were granted to five independent non-executive directors of the Company (2021: 40,500 awarded shares were granted to four independent non-executive directors of the Company).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

35 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes (continued)

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 had 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 2022 was HKD326.30 per share (equivalent to approximately RMB277.69 per share) (2021: HKD569.60 per share (equivalent to approximately RMB476.25 per share)).

The outstanding awarded shares as of 31 December 2022 were divided into one to seven tranches at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from one month to seven years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee investment schemes

For aligning the interests of key employees with the Group, the Group established several employees' investment plans in the form of limited liability partnerships (the "EIS") among which the five EISs approved/established in 2014, 2015, 2016, 2017 and 2021 are in effect as at 31 December 2022. 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 2022 and 2021 were insignificant to the Group.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

35 SHARE-BASED PAYMENTS (continued)

(d) Share options and share award schemes adopted by subsidiaries

Certain subsidiaries of the Company operate their own share-based compensation plans (share options 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 awarded 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 (the "Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction either by using equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that some of them would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method. For some of them to be 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 Retention Rate in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2022, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be not lower than 89% (31 December 2021: not lower than 89%).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

36 BORROWINGS

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	141,090	136,874
Non-current portion of long-term RMB bank borrowings, unsecured (Note (a))	22,514	–
Non-current portion of long-term JPY bank borrowings, unsecured (Note (a))	45	47
Non-current portion of long-term JPY bank borrowings, secured (Note (a))	3	4
Non-current portion of long-term EUR bank borrowings, secured (Note (a))	9	11
Non-current portion of long-term EUR bank borrowings, unsecured (Note (a))	7	–
	163,668	136,936
Included in current liabilities:		
RMB bank borrowings, unsecured (Note (b))	5,981	13,340
RMB bank borrowings, secured (Note (b))	–	200
Current portion of long-term USD bank borrowings, unsecured (Note (a))	5,572	4,061
Current portion of long-term JPY bank borrowings, unsecured (Note (a))	19	16
Current portion of long-term JPY bank borrowings, secured (Note (a))	1	1
Current portion of long-term EUR bank borrowings, unsecured (Note (a))	4	1,083
Current portion of long-term EUR bank borrowings, secured (Note (a))	3	2
Current portion of long-term RMB bank borrowings, unsecured (Note (a))	–	300
	11,580	19,003
	175,248	155,939





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

36 BORROWINGS (continued)

Note:

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

	31 December 2022		31 December 2021	
	Amount	Interest rate	Amount	Interest rate
	(Million)	(per annum)	(Million)	(per annum)
USD bank borrowings	USD20,998	LIBOR + 0.80% ~ 0.95%	USD22,045	LIBOR + 0.80% ~ 1.27%
USD bank borrowings	USD60	1.41%	USD60	1.41%
RMB bank borrowings	RMB22,514	2.80% ~ 4.80%	RMB300	5.70%
JPY bank borrowings	JPY1,250	0.00% ~ 1.86%	JPY1,234	0.00% ~ 2.50%
JPY bank borrowings	JPY36	TIBOR + 1.70%	—	—
EUR bank borrowings	EUR3	1.00% ~ 2.54%	EUR152	0.52% ~ 1.00%

The zero interest rate of JPY borrowings was due to the special interest exemption for COVID-19 by Tokyo Metropolitan Government.

The long-term bank borrowings are repayable as follows:

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Within 1 year	5,599	5,463
Between 1 and 2 years	33,178	7,733
Between 2 and 5 years	130,487	129,197
Over 5 years	3	6
	169,267	142,399

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

	31 December 2022		31 December 2021	
	Amount	Interest rate	Amount	Interest rate
	(Million)	(per annum)	(Million)	(per annum)
RMB bank borrowings	RMB6,007	1.50% ~ 4.80%	RMB13,540	2.45% ~ 5.10%





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

36 BORROWINGS (continued)

The Group had entered into interest rate swap contracts to hedge its exposure arising from certain long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2022 and 2021 are detailed in Note 27 and Note 39.

As at 31 December 2022 and 2021, the carrying amounts of borrowings approximated their fair values.

The Group had complied with all of the financial covenants of its borrowing facilities for the years ended 31 December 2022 and 2021.

37 NOTES PAYABLE

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	148,669	145,590
Included in current liabilities:		
Current portion of long-term USD notes payable	10,446	–
	159,115	145,590

Note:

The aggregate principal amounts of notes payable and applicable interest rates are as follows:

	31 December 2022		31 December 2021	
	Amount (Million)	Interest rate (per annum)	Amount (Million)	Interest rate (per annum)
USD notes payable	USD1,250	LIBOR + 0.605%	USD1,250	LIBOR + 0.605%
		~ 0.910%		~ 0.910%
USD notes payable	USD21,700	1.375% ~ 4.700%	USD21,700	1.375% ~ 4.700%

The Group had entered into 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 2022 and 2021 are detailed in Note 27 and Note 39.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

37 NOTES PAYABLE (continued)

The notes payable are repayable as follows:

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Within 1 year	10,446	–
Between 1 and 2 years	13,913	9,554
Between 2 and 5 years	18,758	29,883
More than 5 years	115,998	106,153
	159,115	145,590

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

As at 31 December 2022, the fair value of the notes payable amounted to approximately RMB134,516 million (31 December 2021: RMB150,998 million). The respective fair value was assessed based on the active market prices of these notes at the reporting dates or by making reference to similar instruments traded in the observable market.

38 LONG-TERM PAYABLES

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Payables relating to media content and running royalty fee for online games	3,072	7,049
Cash-settled share-based compensation payables (Note 35(d))	1,007	615
Payables relating to capital transaction	306	133
Others	4,682	2,169
	9,067	9,966





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

39 OTHER FINANCIAL LIABILITIES

	As at 31 December	
	2022 RMB'Million	2021 RMB'Million
Measured at amortised cost:		
Redemption liabilities (Note (a))	<u>6,204</u>	<u>6,664</u>
Measured at fair value:		
Contingent consideration	3,236	2,405
Interest rate swap (Note (b))	–	358
Others	<u>71</u>	<u>39</u>
	<u>3,307</u>	<u>2,802</u>
	<u>9,511</u>	<u>9,466</u>
Included in:		
Non-current liabilities	5,574	5,912
Current liabilities	<u>3,937</u>	<u>3,554</u>
	<u>9,511</u>	<u>9,466</u>

Note:

- (a) It comprised redemption liabilities arising from put option arrangements made with non-controlling shareholders of acquired subsidiaries of approximately RMB6,204 million (31 December 2021: RMB6,664 million).
- (b) It represented the Group's outstanding interest rate swap contracts measured at fair value. As at 31 December 2022, the aggregate notional principal amounts of these outstanding interest rate swap contracts were nil (31 December 2021: USD2,825 million (equivalent to approximately RMB18,011 million)).





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

40 ACCOUNTS PAYABLE

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

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
0 ~ 30 days	87,612	102,396
31 ~ 60 days	1,512	2,999
61 ~ 90 days	180	1,329
Over 90 days	3,077	2,746
	92,381	109,470

41 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Staff costs and welfare accruals	27,664	28,713
Selling and marketing expenses accruals	4,584	7,668
General and administrative expenses accruals	4,157	3,371
Purchase of land use rights, buildings and construction related costs	2,620	845
Interests payable	1,655	1,279
Purchase consideration payables for investee companies	1,496	2,179
Prepayments received from customers and others	816	649
Others (Note)	18,147	15,878
	61,139	60,582

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 2022

42 BUSINESS COMBINATIONS

(a) Privatisation of Sumo Group PLC ("Sumo")

On 17 January 2022, the Group completed the privatisation of Sumo, a then-existing listed investee classified as FVOCI (LSE: SUMO; with equity interests held of approximately 9%) of the Group, at a cash consideration of approximately GBP847 million (equivalent to approximately RMB7,289 million) for all of the remaining interest ("Privatisation"). As a result of the Privatisation, Sumo became a wholly-owned subsidiary of the Company upon the closing of the transaction and ceased to be a publicly traded company.

Goodwill of approximately RMB6.7 billion 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 was expected to be deductible for income tax purpose.

The following table summarises the purchase consideration, fair value of assets acquired and liabilities assumed as at the acquisition date of Sumo.

	RMB'Million
Total consideration:	
Cash paid	7,289
Fair value of the previously held interests	657
	<u>7,946</u>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Intangible assets	1,044
Cash and cash equivalents	389
Other assets	1,037
Deferred income tax liabilities	(249)
Other payables and accruals	(423)
Other liabilities	(534)
	<u>1,264</u>
Total identifiable net assets	1,264
Goodwill	6,682
	<u>7,946</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

42 BUSINESS COMBINATIONS (continued)

(a) Privatisation of Sumo Group PLC ("Sumo") (continued)

Note:

The Group's revenue for the year ended 31 December 2022 would be increased by not more than 5% and results for the year ended 31 December 2022 would not be materially different should the transaction had occurred on 1 January 2022.

The related transaction costs of the transaction recognised in the Group's consolidated income statement were not material.

(b) Other business combinations

During the year ended 31 December 2022, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions were approximately RMB9,064 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB5,502 million, RMB908 million and RMB4,470 million, respectively.

The revenue and the results contributed by these acquired subsidiaries for the period since respective acquisition dates were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions had occurred on 1 January 2022.

The related transaction costs of these business combinations recognised in the Group's consolidated income statement were not material.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

43 CONSOLIDATED CASH FLOW STATEMENT

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

	2022	2021
	RMB'Million	RMB'Million
Profit for the year	188,709	227,810
Adjustments for:		
Income tax expense	21,516	20,252
Net gains on disposals and deemed disposals of investee companies	(172,707)	(118,051)
Dividend income	(948)	(660)
Depreciation of property, plant and equipment, investment properties and right-of-use assets	28,444	26,166
Amortisation of intangible assets and land use rights	32,772	31,504
Net gains on disposals of intangible assets, property, plant and equipment, construction in progress and right-of-use assets	(108)	(35)
Interest income	(8,592)	(6,650)
Interest and related expenses	9,985	7,918
Equity-settled share-based compensation expenses	24,949	21,625
Share of (profit)/loss of associates and joint ventures, net	16,129	16,444
Impairment provision for investments in associates, investments in joint ventures and others	27,538	16,315
Net fair value losses/(gains) on FVPL and other financial instruments	7,750	(47,717)
Net impairment of intangible assets, land use rights, right-of-use assets, investment properties and property, plant and equipment	17,428	8,704
Exchange (gains)/losses, net	(633)	(804)
Changes in working capital:		
Accounts receivable	4,336	(4,026)
Inventories	(1,201)	1,297
Prepayments, deposits and other receivables	(5,840)	(17,782)
Accounts payable	(6,518)	20,598
Other payables and accruals	(4,851)	(1,184)
Other tax liabilities	2,239	(305)
Deferred revenue	(6,637)	2,293
Cash generated from operations	173,760	203,712





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

43 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Major non-cash transactions

Major non-cash transactions during the year ended 31 December 2022 were the dividend declared to be distributed in specie of Meituan Shares (Note 15(b)) and settlement of dividend declared to be distributed in specie of JD.com Shares (Note 15(c) and Note 32(b)).

(c) Net (debt)/cash reconciliation

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

Net debt	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Cash and cash equivalents	156,739	167,966
Term deposits and others	162,792	113,320
Borrowings – repayable within one year	(11,580)	(19,003)
Borrowings – repayable after one year	(163,668)	(136,936)
Notes payable – repayable within one year	(10,446)	–
Notes payable – repayable after one year	(148,669)	(145,590)
Net debt	<u>(14,832)</u>	<u>(20,243)</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

43 CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Net (debt)/cash reconciliation (continued)

	Cash and cash equivalents	Term deposits and others	Borrowings due within 1 year	Borrowings due after 1 year	Notes payable due within 1 year	Notes payable due after 1 year	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Net debt as at 1 January 2022	167,966	113,320	(19,003)	(136,936)	–	(145,590)	(20,243)
Cash flows	(18,733)	44,080	13,430	(19,837)	–	–	18,940
Exchange impacts	7,506	3,326	(273)	(12,492)	(883)	(12,564)	(15,380)
Other non-cash movements (Note)	–	2,066	(5,734)	5,597	(9,563)	9,485	1,851
Net debt as at 31 December 2022	<u>156,739</u>	<u>162,792</u>	<u>(11,580)</u>	<u>(163,668)</u>	<u>(10,446)</u>	<u>(148,669)</u>	<u>(14,832)</u>
Net cash as at 1 January 2021	152,798	106,709	(14,242)	(112,145)	–	(122,057)	11,063
Cash flows	18,257	349	616	(33,346)	–	(27,060)	(41,184)
Exchange impacts	(3,089)	(871)	199	3,044	–	3,597	2,880
Other non-cash movements (Note)	–	7,133	(5,576)	5,511	–	(70)	6,998
Net debt as at 31 December 2021	<u>167,966</u>	<u>113,320</u>	<u>(19,003)</u>	<u>(136,936)</u>	<u>–</u>	<u>(145,590)</u>	<u>(20,243)</u>

Note:

It mainly resulted from the reclassification from non-current to current and assets/liabilities acquired from business combinations.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

44 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2022 and 2021 are analysed as follows:

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	4,821	3,337
Purchase of other property, plant and equipment	158	286
Capital investments in investees	12,623	12,798
	<u>17,602</u>	<u>16,421</u>

(b) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media content agreements are as follows:

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	13,037	15,481
Later than one year and not later than five years	14,124	11,392
Later than five years	5,427	6,113
	<u>32,588</u>	<u>32,986</u>

45 RELATED PARTY TRANSACTIONS

Except as disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 26 (Loans to investees and investees' shareholders) and Note 35 (Share-based payments) to the consolidated financial statements, other significant transactions carried out between the Group and its related parties during the years are presented as follows. These related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

45 RELATED PARTY TRANSACTIONS (continued)

(a) Significant transactions with related parties

The Group has commercial arrangements with certain associates and joint ventures to provide Online Advertising services, FinTech and Business Services, and other services, the revenue from which, for the year ended 31 December 2022, amounted to RMB5,819 million, RMB39,200 million and RMB2,577 million, respectively (2021: RMB12,085 million, RMB38,745 million and RMB3,599 million, respectively).

The Group has commercial arrangements with certain associates and joint ventures to purchase online game licenses and related services, film and television content and related services, FinTech and Business Services and others, the costs of which, for the year ended 31 December 2022, amounted to RMB1,734 million, RMB4,226 million, RMB3,710 million and RMB1,030 million, respectively (2021: RMB8,278 million, RMB7,040 million, RMB4,335 million and RMB1,430 million, respectively).

(b) Year end balances with related parties

As at 31 December 2022, trade receivables and other receivables from related parties were RMB10,755 million and RMB186 million, respectively (31 December 2021: RMB12,589 million and RMB161 million, respectively).

As at 31 December 2022, trade payables and other payables to related parties were RMB1,530 million and RMB64 million, respectively (31 December 2021: RMB2,257 million and RMB172 million, respectively).

The Group has certain business co-operation arrangements with certain associates, which are engaged in various Internet businesses including eCommerce, Online-To-Offline platforms, and FinTech services, in respect of the provision of various services such as FinTech services, business services and online advertising to these associates. As at 31 December 2022, contract liabilities arising from these business co-operation arrangements were RMB1,959 million (31 December 2021: RMB3,262 million).

The Group has entered into certain contracts for purchasing services or contents with certain associates or joint ventures. As at 31 December 2022, commitments in respect of these agreements amounted to RMB4,158 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 2022 and 2021, and no other material balances with related parties as at 31 December 2022 and 2021.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2022 RMB'Million	2021 RMB'Million
ASSETS		
Non-current assets		
Intangible assets	42	35
Investments in subsidiaries	215,342	180,881
Investments in associates	440	359
Financial assets at fair value through other comprehensive income	1,944	–
Contribution to Share Scheme Trust	15	9
	<u>217,783</u>	<u>181,284</u>
Current assets		
Amounts due from subsidiaries	45,516	49,927
Prepayments, deposits and other receivables	177	10
Cash and cash equivalents	754	116
Assets held for distribution	147,965	102,451
	<u>194,412</u>	<u>152,504</u>
Total assets	<u>412,195</u>	<u>333,788</u>





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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

(a) Financial position of the Company (continued)

	As at 31 December	
	2022	2021
	RMB'Million	RMB'Million
EQUITY		
Share capital	–	–
Share premium	62,418	67,330
Treasury shares	(1,868)	–
Shares held for share award schemes	(4,226)	(4,843)
Other reserves (b)	8,617	3,708
Retained earnings (b)	17,621	506
Total equity	82,562	66,701
LIABILITIES		
Non-current liabilities		
Notes payable	143,134	140,528
Other financial liabilities	153	114
	143,287	140,642
Current liabilities		
Amounts due to subsidiaries	25,944	22,796
Other payables and accruals	1,991	1,198
Notes payable	10,446	–
Dividends payable for distribution in specie	147,965	102,451
	186,346	126,445
Total liabilities	329,633	267,087
Total equity and liabilities	412,195	333,788





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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

(b) Reserve movement of the Company

	Retained earnings RMB'Million	Other reserves RMB'Million
At 1 January 2022	506	3,708
Profit for the year	171,971	–
Cash dividends	(12,950)	–
Dividends under distribution in specie	(130,156)	–
Transfer of losses on settlement of assets held for distribution to retained earnings	(11,750)	11,750
Net losses from changes in fair value of assets held for distribution	–	(6,102)
Net gains from changes in the fair value of financial assets at fair value through other comprehensive income	–	55
Currency translation differences	–	(794)
At 31 December 2022	17,621	8,617
At 1 January 2021	2,685	(1,114)
Profit for the year	112,955	–
Cash dividends	(12,683)	–
Dividends under distribution in specie	(102,451)	–
Gain from changes in fair value of assets held for distribution	–	5,380
Currency translation differences	–	(558)
At 31 December 2021	506	3,708

47 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2022 to the approval date of these financial statements by the Board on 22 March 2023.





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

48 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of material subsidiaries of the Company as at 31 December 2022:

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Computer	Established in the PRC, limited liability company	RMB65,000,000	100% (Note (a))	Provision of value-added services and Internet advertisement services in the PRC
Tencent Technology	Established in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	Development of softwares and provision of information technology services in the PRC
Shenzhen Shiji Kaixuan Technology Company Limited	Established in the PRC, limited liability company	RMB11,000,000	100% (Note (a))	Provision of Internet advertisement services in the PRC
Tencent Cyber (Tianjin) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Asset Management Limited	Established in the British Virgin Islands, limited liability company	USD100	100%	Asset management in Hong Kong
Tencent Technology (Beijing) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	Development and sale of softwares and provision of information technology services in the PRC
Nanjing Wang Dian Technology Company Limited	Established in the PRC, limited liability company	RMB10,290,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing BIZCOM Technology Company Limited	Established in the PRC, limited liability company	RMB1,216,500,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing Starsinhand Technology Company Limited	Established in the PRC, limited liability company	RMB10,000,000	100% (Note (a))	Provision of value-added services in the PRC
Tencent Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares in the PRC





Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

48 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Technology (Shanghai) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Chengdu) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD220,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Wuhan) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Cloud Computing (Beijing) Company Limited	Established in the PRC, limited liability company	RMB1,042,500,000	100% (Note (a))	Provision of information system integration services in the PRC
Beijing Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC
Riot Games, Inc.	Established in the United States, limited liability company	USD1,309	99.79%	Development and operation of online games in the United States
China Literature Limited	Established in the Cayman Islands, limited liability company	USD101,524	57.43%*	Provision of online literature services in the PRC
TME (Note (b))	Established in the Cayman Islands, limited liability company	USD280,447	52.65%*	Provision of online music entertainment services in the PRC
Supercell Oy	Established in Finland, limited liability company	EUR2,500	79.95%	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
Shenzhen Tencent Tianyou Technology Company Limited	Established in the PRC, limited liability company	RMB10,000,000	100% (Note (a))	Provision of value-added services in the PRC

* on an outstanding basis

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

48 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Note:

- (a) As described in Note 1, the Company does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.
- (b) In September 2020, TME issued two tranches of senior notes with an aggregate principal amount of USD800 million due in 5 years to 10 years, with interest rate ranging from 1.375% to 2.000%. As at 31 December 2022, the principal amount and net book balance of its notes payable were USD800 million and USD795 million respectively.
- (c) The directors of the Company considered that the non wholly-owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarised financial information of these non wholly-owned subsidiaries is presented separately.
- (d) All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary's undertakings held directly by the parent company does not differ from its proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.
- (e) Significant restrictions

As at 31 December 2022, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB167,926 million were held in the Mainland of China and they are subject to local exchange control and other financial and treasury regulations. The local exchange control, and other financial and treasury regulations provide for restrictions, on payment of dividends, share repurchase and offshore investments, other than through normal activities.

- (f) Consolidation of structured entities

As mentioned in Note (a) above and Note 35(c), the Company has consolidated the operating entities within the Group without any legal interests and the EISs out of which wholly-owned subsidiaries of the Company act as general partner. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 35(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

During the year ended 31 December 2022, the Company contributed approximately RMB2,882 million (2021: RMB2,827 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.





Definition

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

Term	Definition
“2007 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date I, as amended
“2013 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date II, as amended from time to time
“2019 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date III, as amended from time to time
“2023 AGM”	the annual general meeting of the Company to be held on 17 May 2023 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
“ARPU”	average revenue per user
“Articles of Association”	the third amended and restated articles of association of the Company adopted by special resolution passed on 18 May 2022
“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
“Board”	the board of directors of the Company
“CCTV”	China Central Television
“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 Shenzhen”	Tencent Cyber (Shenzhen) Company Limited
“Cyber Tianjin”	Tencent Cyber (Tianjin) Company Limited
“DAU”	daily active user accounts





Definition

Term	Definition
“Distribution in Specie”	the distribution of a special interim dividend by the Company in the form of a distribution in specie of the Meituan Shares held by the Group to the qualifying shareholders in proportion to their respective shareholdings in the Company on the basis of an entitlement to 1 Class B ordinary share of Meituan for every 10 Shares held by each qualifying shareholder as at the record date
“Domestic Games”	for the purpose of preparing financial and operating information, Domestic Games refers to our games business in the PRC, excluding Hong Kong, the Macao Special Administrative Region and Taiwan, China
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“Eligible Person(s)”	any person(s) eligible to participate in the respective Share Award Schemes
“EPS”	earnings per share
“ESG Reporting Guide”	the environmental, social and governance reporting guide as set out in Appendix 27 to the Listing Rules
“FinTech”	financial technology
“FMCG”	fast-moving consumer goods
“FPO”	Follow-on Public Offering
“GBP”	the lawful currency of the United Kingdom of Great Britain and Northern Ireland
“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 Computer”	Guangzhou Tencent Computer System Company Limited
“Guangzhou Tencent Technology”	Guangzhou Tencent Technology Company Limited





Definition

Term	Definition
“Guian New Area Tencent Cyber”	Guian New Area Tencent Cyber Company Limited
“Hainan Network”	Hainan Tencent Network Information Technology Company Limited
“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
“IAS”	International Accounting Standards
“IC”	risk management and internal control department of the Company
“IFRS”	International Financial Reporting Standards
“IM”	Instant Messaging
“International Games”	for the purpose of preparing financial and operating information, International Games refers to our games business other than our Domestic Games business
“Investment Committee”	the investment committee of the Company
“IP”	intellectual property
“IPO”	initial public offering
“IT”	information technology
“JD.com”	JD.com, Inc., a company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability, whose American depositary shares are listed on NASDAQ and whose Class A ordinary shares are listed on the Stock Exchange





Definition

Term	Definition
“JD.com Shares”	the approximately 457 million Class A ordinary shares in the share capital of JD.com with a par value of USD0.00002 each, held by the Group conferring a holder of a Class A ordinary share to one vote per share on any resolution tabled at JD.com's general meeting and which were distributed on 25 March 2022
“JPY”	the lawful currency of Japan
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“Meituan”	Meituan, a company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability, whose Class B ordinary shares are listed on the Stock Exchange
“Meituan Shares”	the Class B ordinary shares in the share capital of Meituan with a par value of USD0.00001 each, held by the Group which are to be distributed pursuant to the Distribution in Specie
“Minor(s)”	players who are aged under 18
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NASDAQ”	NASDAQ Global Select Market
“Nomination Committee”	the nomination committee of the Company
“PaaS”	Platform-as-a-Service





Definition

Term	Definition
“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 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
“Selected Participant(s)”	any Eligible Person(s) selected by the Board to participate in the respective Share Award Schemes
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time





Definition

Term	Definition
“Shanghai Tencent Information”	Shanghai Tencent Information Technology Company Limited
“Share(s)”	ordinary share(s) of HKD0.00002 each in the share capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time)
“Share Award Schemes”	the 2007 Share Award Scheme, the 2013 Share Award Scheme and the 2019 Share Award Scheme
“Share Scheme Trust”	a structured entity administering and holding the Shares acquired for share award schemes which are set up for the benefits of Eligible Persons of the Share Award Schemes
“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
“Shenzhen Tencent Tianyou”	Shenzhen Tencent Tianyou Technology Company Limited
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited
“SKT CFC”	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan
“SKT Co-operation Committee”	the co-operation committee established under the SKT CFC
“SSV & CPP”	Sustainable Social Value and Common Prosperity Programmes





Definition

Term	Definition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland
“TCS CFC”	the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer
“TCS Co-operation Committee”	the co-operation committee established under the TCS CFC
“Tencent Beijing”	Tencent Technology (Beijing) Company Limited
“Tencent Chengdu”	Tencent Technology (Chengdu) Company Limited
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited
“Tencent Enterprise Management”	Shenzhen Tencent Enterprise Management Limited
“Tencent Shanghai”	Tencent Technology (Shanghai) Company Limited
“Tencent Technology”	Tencent Technology (Shenzhen) Company Limited
“Tencent Wuhan”	Tencent Technology (Wuhan) Company Limited
“TIBOR”	Tokyo InterBank Offered Rate
“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 and the Stock Exchange
“ToB”	Product/Service provided to business customers





Definition

Term	Definition
“Trust Deed I”	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2007 Share Award Scheme
“Trust Deed II”	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2013 Share Award Scheme
“Trust Deed III”	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2019 Share Award Scheme
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Schemes
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services
“Wang Dian”	Nanjing Wang Dian Technology Company Limited
“WFOEs”	Tencent Technology, Cyber Tianjin, Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network, Guian New Area Tencent Cyber, Cyber Shenzhen, Wuhan Tencent Information and Guangzhou Tencent Computer
“Wuhan Tencent Information”	Wuhan Tencent Information Technology Company Limited





Tencent 腾讯

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