

Management Discussion and Analysis

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

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

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

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

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

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

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



Management Discussion and Analysis

FOURTH QUARTER OF 2019 COMPARED TO FOURTH QUARTER OF 2018

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

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

