

For Immediate Release

TENCENT ANNOUNCES 2016 THIRD QUARTER RESULTS

Hong Kong, November 16, 2016 – Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 00700), a leading provider of Internet value added services in China, today announced the unaudited consolidated results for the third quarter (“3Q2016”) ended September 30, 2016.

3Q2016 Key Highlights:

- Total revenues were RMB40,388 million (USD6,048 million¹), an increase of 52% over the third quarter of 2015 (“YoY”).
- Operating profit was RMB14,460 million (USD2,165 million), an increase of 40% YoY. Operating margin decreased to 36% from 39% last year.
- Profit for the period was RMB10,776 million (USD1,614 million), an increase of 42% YoY. Net margin decreased to 27% from 29% last year.
- Profit attributable to equity holders of the Company for the period was RMB10,646 million (USD1,594 million), an increase of 43% YoY.
- Basic earnings per share were RMB1.134. Diluted earnings per share were RMB1.121.
- On a non-GAAP basis, excluding share-based compensation, net (gains)/losses from investee companies, amortization of intangible assets and impairment provision:
 - Operating profit was RMB15,037 million (USD2,252 million), an increase of 43% YoY. Operating margin decreased to 37% from 40% last year.
 - Profit for the period was RMB11,929 million (USD1,786 million), an increase of 41% YoY. Net margin decreased to 30% from 32% last year.
 - Profit attributable to equity holders of the Company for the period was RMB11,737 million (USD1,758 million), an increase of 42% YoY.
 - Basic earnings per share were RMB1.251. Diluted earnings per share were RMB1.236.

“During the third quarter of 2016, we delivered strong financial performance for our core businesses. In particular, our smart phone games and social performance advertising businesses reported above-industry YoY revenue growth rates and continued to generate healthy margins. Meanwhile, our ecosystem infrastructure services such as online payment and cloud-based services saw significant progress in adoption and usage,” said Ma Huateng, Chairman and CEO of Tencent.

“In addition, this month marks a significant milestone for Tencent as we celebrated the 18th anniversary of our company founding on November 11. Looking back eighteen years, Tencent began by connecting people via its first messaging platform. Since then, we have sought to enrich the lives of our users through technology, prompting us to expand from communications to social networking, digital media, digital entertainment, and a world-leading technology and payments infrastructure. This journey was made possible by the support of our users, our business partners, and in particular, our colleagues. Tencent is profoundly grateful to them for turning our vision into the company we are today, and consequently has just announced a new programme granting

¹ Figures stated in USD are based on USD1 to RMB6.6778.

stock to all Tencent employees so they can more directly share in the benefits of their contributions. We look forward to continue enhancing our user experiences, improving our ecosystem, and investing in our employees.”

3Q2016 Financial Review

Value Added Services (“VAS”). Revenues from our VAS business increased by 36% YoY to RMB27,975 million for 3Q2016. Online games revenues increased by 27% YoY to RMB18,166 million. The increase primarily reflected contributions from our major player versus player (“PvP”) and RPG genre smart phone games, as well as revenue growth from our major PC titles. Social networks revenues grew by 58% YoY to RMB9,809 million. The increase was mainly driven by higher revenues from digital content subscription services and from virtual item sales.

Online advertising. Revenues from our online advertising business increased by 51% YoY to RMB7,449 million for 3Q2016. Performance-based advertising revenues increased by 83% YoY to RMB4,368 million, primarily due to higher contributions from advertising revenues derived from Weixin Moments, our mobile news app, and Weixin Official Accounts. Brand display advertising revenues grew by 21% YoY to RMB3,081 million, mainly reflecting growth in revenues from our mobile platforms such as Tencent News, and the positive impact of the Rio Olympic Games, partly offset by our re-allocating some news feed inventory from brand to performance formats.

Others. Revenues from our others businesses increased by 348% YoY to RMB4,964 million for 3Q2016. The increase primarily reflected revenue growth from our payment related and cloud services.

Other Key Financial Information for 3Q2016

Share-based compensation was RMB1,132 million, up 45% YoY.

EBITDA was RMB15,865 million, up 47% YoY. Adjusted EBITDA was RMB16,963 million, up 47% YoY.

Capital expenditure was RMB3,651 million, up 121% YoY.

Free cash flow was RMB14,121 million, up 113% YoY.

As at September 30, 2016, the Company had net cash of RMB8,368 million. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB94 billion as at September 30, 2016.

Company Strategic Highlights

In 3Q2016, we continued to execute our “Connection” strategy by strengthening our social platforms and leveraging our social traffic to grow our key business models.

- Online games: For smart phone games, we sought to expand our game portfolio, particularly into both high-user game types such as board games and PvP games, and high-revenue game types such as role playing games. For PC games, given the increased popularity of PvP titles in which users alternate high-engagement competitive sessions with low-intensity practice and review sessions, we are shifting our engagement focus away from maximising user time spent in-game

and toward broadening overall user engagement via game-related activities such as eSports, game video streams, and game interest tribes. Partially reflecting this shift, our PC game revenue increased despite our PC game average concurrent user metrics (which quantify time spent inside game client software) declining. We believe this broader engagement model will result in healthier and more sustainable gamer relationships with key titles.

- Advertising: For social and performance advertising, we added more interactive advertising formats to drive user engagement; sharpened advertiser tools to provide better advertising performance measurement and to deliver deeper data insight; and improved our targeting technology to enable regional and long-tail advertisers to enhance click-through rates and results.
- Digital content: We integrated the management teams of QQ Music and CMC, in order to improve the digital music industry's structure and sustainability. We invested aggressively in content for our video platform, where we saw substantial growth in subscriptions. Due partly to a healthier copyright control environment, more users paid for content on our digital literature platform.
- Payment related services: We made significant progress in driving merchant adoption and usage. Our Weixin Pay promotion "Cash-Free Day" on August 8, 2016 was well received by merchants and users, with almost 700,000 merchants participating, up over seven times YoY. We introduced a Weixin Checkout feature that allows merchants to speed up adoption of Weixin Pay by simplifying the onboarding procedures and minimising payment integration work.
- Cloud services: We strengthened our cloud services technical capabilities, enhanced industry-specific solutions, and supported our customers in fulfilling their "Internet-Plus" related initiatives. Our cloud services revenue more than tripled YoY as the number of enterprise accounts and usage by key accounts increased, particularly in sectors such as online games, online video and O2O services.

Our improving security capabilities escorted our "Connection" strategy by safeguarding our users, extending protection shields to our business partners, and providing a secure environment for our key business engines:

- For users: Our security applications provide robust protection to user accounts, passwords, personal information and virtual property, and boost performance of PC and mobile devices. We provide users with a safe environment for payment transactions and wealth management products. We protect users from fraudulent and harassing incoming calls or messages by maintaining a comprehensive and dynamic anti-fraudulent phone number library.
- For partners: Our security scanning service is widely adopted by most smart phone manufacturers and android application stores in China through pre-installation of our security applications or integration of our security modules. Our Android application store helps developers strengthen their application package against potential hijacking and counterfeiting threats. Tencent Cloud provides a rich portfolio of security functionalities to safeguard the IT systems of our enterprise clients.

During 2016, we strengthened our mobile security leadership in areas such as virus scanning, phony

base-station detection, anti-fraudulent phone number library, phone memory optimisation, and speed boosting. QuestMobile and TalkingData, two well-regarded industry monitoring organisations, ranked our mobile security application first in the China mobile security industry in terms of monthly active users.

Business Review and Outlook

Operating information

- Monthly active user accounts (“MAU”) of QQ was 877 million, an increase of 2% YoY.
- Smart device MAU of QQ was 647 million, an increase of 1% YoY.
- Peak concurrent user accounts of QQ (for the quarter) was 250 million, an increase of 5% YoY.
- Combined MAU of Weixin and WeChat were 846 million, an increase of 30% YoY.
- MAU of Qzone was 632 million, a decrease of 3% YoY.
- Smart device MAU of Qzone was 584 million, an increase of 1% YoY.
- Fee-based VAS registered subscriptions were 105 million, an increase of 19% YoY.

Key Platforms

- For QQ, smart device MAU increased by 1% YoY to 647 million. User activity benefited from new features such as cmShow, a mobile QQ product that provides users with animated personal avatars, with which users can interact with friends inside chat or collect items from friends to unlock new features. During the Rio Olympic Games, we attracted over 100 million QQ users to participate in the virtual torch relay campaign by building augmented reality into the phone-to-phone interactions.
- For Qzone, smart device MAU increased by 1% YoY to 584 million. User activity benefited from upgraded functionalities such as an immersive display that enables users to streamline autoplay videos and discover more personalised recommendations.
- For Weixin and WeChat together, MAU reached 846 million, representing YoY growth of 30%. We are beta-testing “mini programs” in Weixin that will provide native app-like experiences without leaving the Weixin interface, enhancing user convenience for low frequency interactions, freeing up memory space on smart phones, and enabling convenient social sharing.

VAS

In the third quarter of 2016, our social networks business sustained strong revenue growth as we generated more game-related virtual item sales and digital content sales.

- For PC client games, we generated 10% YoY revenue growth, with increased contributions from existing titles in genres such as MOBA, action, RPG, music, and sports. ARPU in key titles increased as new content and seasonal promotions were well received by our core users.
- For smart phone games, we achieved approximately RMB9.9 billion revenue¹ in 3Q2016, representing 87% YoY revenue growth, mainly driven by portfolio expansion and strong operating

¹ Including smart phone games revenue attributable to our social networks business

performance of our major PvP and RPG titles. At the end of September 2016, Honour of Kings surpassed 40 million daily active users, a new record among non-casual smart phone games on our platforms.

- For digital content services, we sustained healthy growth as users became increasingly willing to pay for digital content, and as we escalated efforts in combatting piracy.

Online Advertising

During 3Q2016, our advertising business delivered robust expansion, with Weixin and mobile news app being the key contributors to YoY growth.

Our initiatives featuring the Rio Olympic Games attracted about 700 million unique visitors across our news and video platforms, reinforcing our position as the online sports media leader by traffic and revenue. Neighbourhood LBS advertising in Weixin Moments is gaining popularity among local advertisers from industries such as real estate, wedding services, and auto dealerships. During the quarter, we introduced Weixin Moments canvas, a full-screen and instantaneous loading advertisement format that enables creative storytelling with flexible combinations of images and videos.

For other detailed disclosure, please refer to our website www.tencent.com/ir, or follow us via Weixin Official Account (Weixin ID: Tencent_IR):



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About Tencent

Tencent uses technology to enrich the lives of Internet users. Every day, hundreds of millions of people communicate, share experiences, consume information and seek entertainment through our integrated platforms. Tencent's diversified services include QQ, Weixin/ WeChat for communications; Qzone for social networking; QQ Game Platform for online games; QQ.com and Tencent News for information and Tencent Video for video content.

Tencent was founded in Shenzhen in 1998 and went public on the Main Board of the Hong Kong Stock Exchange in 2004. The Company is one of the constituent stocks of the Hang Seng Index. Tencent seeks to evolve with the Internet by investing in innovation, providing a mutually beneficial environment for partners, and staying close to users.

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Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin, non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS, have been presented in this announcement. These unaudited non-GAAP 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-GAAP financial measures may be defined differently from similar terms used by other companies.

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

Forward-Looking Statements

This press release contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Company. These forward-looking statements are based on information currently available to the Company and are stated herein on the basis of the outlook at the time of this press release. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying the forward-looking statements is a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents on our corporate website.

CONSOLIDATED INCOME STATEMENT

RMB in millions, unless specified

	Unaudited		Unaudited	
	3Q2016	3Q2015	3Q2016	2Q2016
Revenues	40,388	26,594	40,388	35,691
VAS	27,975	20,547	27,975	25,680
Online advertising	7,449	4,938	7,449	6,532
Others	4,964	1,109	4,964	3,479
Cost of revenues	(18,560)	(11,014)	(18,560)	(15,235)
Gross profit	21,828	15,580	21,828	20,456
<i>Gross margin</i>	<i>54%</i>	<i>59%</i>	<i>54%</i>	<i>57%</i>
Interest income	637	559	637	626
Other gains, net	1,155	614	1,155	911
Selling and marketing expenses	(3,277)	(2,042)	(3,277)	(2,365)
General and administrative expenses	(5,883)	(4,380)	(5,883)	(5,299)
Operating profit	14,460	10,331	14,460	14,329
<i>Operating margin</i>	<i>36%</i>	<i>39%</i>	<i>36%</i>	<i>40%</i>
Finance costs, net	(604)	(481)	(604)	(377)
Share of losses of associates and joint ventures	(619)	(702)	(619)	(292)
Profit before income tax	13,237	9,148	13,237	13,660
Income tax expense	(2,461)	(1,564)	(2,461)	(2,780)
Profit for the period	10,776	7,584	10,776	10,880
<i>Net margin</i>	<i>27%</i>	<i>29%</i>	<i>27%</i>	<i>30%</i>
Attributable to:				
Equity holders of the Company	10,646	7,445	10,646	10,737
Non-controlling interests	130	139	130	143
Non-GAAP profit attributable to equity holders of the Company	11,737	8,280	11,737	11,319
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	1.134	0.800	1.134	1.146
- diluted	1.121	0.792	1.121	1.133

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited		Unaudited	
	3Q2016	3Q2015	3Q2016	2Q2016
Profit for the period	10,776	7,584	10,776	10,880
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	214	287	214	277
Net gains from changes in fair value of available-for-sale financial assets	1,042	1,298	1,042	4,979
Transfer to profit or loss upon disposal of available-for-sale financial assets	-	-	-	79
Currency translation differences	688	1,303	688	1,308
Other fair value gains/ (losses)	149	-	149	(182)
Items that may not be subsequently reclassified to profit or loss				
Other fair value gains/(losses)	225	-	225	(66)
Total comprehensive income for the period	13,094	10,472	13,094	17,275
Attributable to:				
Equity holders of the Company	12,953	10,316	12,953	17,116
Non-controlling interests	141	156	141	159

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		
	3Q2016	3Q2015	2Q2016
EBITDA (a)	15,865	10,806	15,581
Adjusted EBITDA (a)	16,963	11,569	16,401
Adjusted EBITDA margin (b)	42%	44%	46%
Interest expense	585	373	494
Net cash (c)	8,368	21,239	24,037
Capital expenditures (d)	3,651	1,653	1,505

Note:

- EBITDA consists of operating profit less interest income and other gains/losses, net, and plus depreciation of fixed assets and investment properties and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.
- Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- Net cash represents period end balance and is calculated as cash and cash equivalents, term deposits, minus borrowings and notes payable.
- Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding online game and other content licenses).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB in millions, unless specified

	<u>Unaudited</u> <u>September 30 2016</u>	<u>Unaudited</u> <u>June 30 2016</u>
ASSETS		
Non-current assets		
Fixed assets	12,519	11,469
Construction in progress	4,449	4,066
Investment properties	685	710
Land use rights	5,201	4,066
Intangible assets	33,193	14,190
Investments in associates	66,613	64,092
Investments in redeemable instruments of associates	9,124	8,203
Investments in joint ventures	606	573
Available-for-sale financial assets	56,211	54,827
Prepayments, deposits and other assets	32,122	7,049
Deferred income tax assets	6,410	4,739
Term deposits	5,414	9,034
	<u>232,547</u>	<u>183,018</u>
Current assets		
Inventories	231	216
Accounts receivable	9,507	8,810
Prepayments, deposits and other assets	12,981	11,908
Other financial assets	1,765	1,537
Term deposits	42,505	35,774
Restricted cash	809	125,490
Cash and cash equivalents	52,417	64,206
	<u>120,215</u>	<u>247,941</u>
Total assets	<u><u>352,762</u></u>	<u><u>430,959</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in millions, unless specified

	Unaudited September 30 2016	Unaudited June 30 2016
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	15,554	14,619
Shares held for share award schemes	(2,918)	(2,425)
Other reserves	24,307	12,884
Retained earnings	126,855	116,192
	163,798	141,270
Non-controlling interests	10,151	2,851
Total equity	173,949	144,121
LIABILITIES		
Non-current liabilities		
Borrowings	37,235	33,030
Notes payable	34,840	34,585
Long-term payables	3,737	3,936
Deferred income tax liabilities	4,406	3,920
Deferred revenue	2,546	2,365
	82,764	77,836
Current liabilities		
Accounts payable	23,900	21,168
Other payables and accruals	17,832	138,759
Borrowings	12,555	10,080
Notes payable	7,338	7,282
Current income tax liabilities	5,196	3,555
Other tax liabilities	110	384
Deferred revenue	29,118	27,774
	96,049	209,002
Total liabilities	178,813	286,838
Total equity and liabilities	352,762	430,959

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

<i>RMB in millions, unless specified</i>	As reported	Adjustments				Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Net (gains)/losses from investee companies (b)				
Unaudited three months ended September 30, 2016								
Operating profit	14,460	1,098	34	(2,404)	139	1,710	15,037	
Profit for the period	10,776	1,259	34	(2,309)	426	1,743	11,929	
Profit attributable to equity holders	10,646	1,224	33	(2,297)	389	1,742	11,737	
Operating margin	36%						37%	
Net margin	27%						30%	
Unaudited three months ended June 30, 2016								
Operating profit	14,329	820	42	(2,990)	49	2,437	14,687	
Profit for the period	10,880	1,014	42	(3,251)	328	2,483	11,496	
Profit attributable to equity holders	10,737	995	42	(3,247)	317	2,475	11,319	
Operating margin	40%						41%	
Net margin	30%						32%	
Unaudited three months ended September 30, 2015								
Operating profit	10,331	763	17	(1,020)	46	379	10,516	
Profit for the period	7,584	981	18	(783)	275	375	8,450	
Profit attributable to equity holders	7,445	959	17	(783)	267	375	8,280	
Operating margin	39%						40%	
Net margin	29%						32%	

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 and businesses, and fair value changes on options we own in investee companies
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates, available-for-sale financial assets, and intangible assets arising from acquisitions