

For Immediate Release

TENCENT ANNOUNCES 2015 THIRD QUARTER RESULTS

Hong Kong, November 10, 2015 – 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 (“3Q2015”) ended September 30, 2015.

3Q2015 Key Highlights:

- Total revenues were RMB26,594 million (USD4,181 million¹), an increase of 34% over the third quarter of 2014 (“YoY”).
- Operating profit was RMB10,331 million (USD1,624 million), an increase of 37% YoY. Operating margin increased to 39% from 38% last year.
- Profit for the period was RMB7,584 million (USD1,192 million), an increase of 34% YoY. Net margin was 29%, the same as the third quarter of last year.
- Profit attributable to equity holders of the Company for the period was RMB7,445 million (USD1,170 million), an increase of 32% YoY.
- Basic earnings per share were RMB0.800. Diluted earnings per share were RMB0.792.
- On a non-GAAP² basis, excluding share-based compensation, deemed disposals/ disposals, amortization of intangible assets and impairment provision:
 - Operating profit was RMB10,516 million (USD1,653 million), an increase of 27% YoY. Operating margin decreased to 40% from 42% last year.
 - Profit for the period was RMB8,450 million (USD1,328 million), an increase of 28% YoY. Net margin decreased to 32% from 33% last year.
 - Profit attributable to equity holders of the Company for the period was RMB8,280 million (USD1,302 million), an increase of 26% YoY.
 - Basic earnings per share were RMB0.890. Diluted earnings per share were RMB0.881.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “During the third quarter of 2015, we continued to deliver solid operational growth in our core platforms. Financially, our smart phone games business accelerated growth following the implementation of a new strategy that extends our product range. Our online advertising revenue continued to double year-on-year. For mobile payments, over 200 million users have bound their bank cards to our QQ Wallet and Weixin Pay services, and payment volumes have sharply increased, especially for person-to-person, e-Commerce, and O2O transactions. We leveraged our platform to launch “9.9 Charity Day” with over 95 charitable organizations on September 9 to raise donation and increase awareness for them. This one-of-a-kind “Internet+” campaign has significant impact among our partners and users.”

3Q2015 Financial Review

Value Added Services (“VAS”)³. Revenues increased by 28% to RMB20,547 million for 3Q2015 on a YoY basis.

¹ Figures stated in USD are based on USD1 to RMB6.3613.

² Since the second quarter of 2015, we have included relevant non-GAAP adjustments for our material associates in our non-GAAP adjustments. We adopted the new presentation in order to more clearly illustrate our non-GAAP financial measures, and to be more consistent with what we believe to be industry practice. Comparative figures have been adjusted to conform to the new presentation.

³ We recognise revenues from smart phone games we publish on an exclusive basis on a gross basis, from the fourth quarter of 2014 onward, primarily to reflect changes in our co-operation models that qualify us the principal, rather than agent, for certain licensed titles. Correspondingly, we record revenue sharing with third-party developers and channel costs of these titles in costs of revenues, instead of treating them as contra-revenue items. Net versus gross revenue recognition does not impact the Company’s profits.

Online games revenues increased by 27% YoY to RMB14,333 million. The increase mainly reflected revenue growth from smart phone games, primarily driven by our diversified game portfolio and, to a lesser extent, the impact of the adoption of gross revenue recognition. Revenues from PC client games also climbed, mainly driven by our key titles. Social networks revenues grew by 32% YoY to RMB6,214 million. The increase primarily reflected higher subscription revenues from QQ Membership and digital content subscription services, as well as an increase in revenues from in-game item sales. If gross revenue recognition for smart phone games had been adopted for the third quarter of 2014, revenues from our VAS business would have increased by 24% YoY, of which online games revenues would have increased by 22% YoY and social networks revenues would have increased by 28% YoY for 3Q2015.

Online advertising. Revenues increased by 102% to RMB4,938 million for 3Q2015 on a YoY basis. Brand display advertising revenues increased by 67% YoY to RMB2,552 million, mainly driven by revenue growth from our mobile media platforms such as Tencent Video and Tencent News, which benefited from more traffic. Performance-based advertising revenues grew by 160% YoY to RMB2,386 million, reflecting higher contributions from performance-based social advertising on mobile, primarily due to Mobile Qzone, Weixin Moments and Weixin Official Accounts.

Other Key Financial Information for 3Q2015

Share-based compensation was RMB780 million, up 12% YoY.

EBITDA was RMB10,806 million, up 32% YoY. Adjusted EBITDA was RMB11,569 million, up 33% YoY.

Capital expenditure was RMB1,653 million, up 56% YoY.

Free cash flow was RMB6,618 million, down 5% YoY.

As at September 30, 2015, the Company had net cash of RMB21,239 million. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totaled RMB73 billion as at September 30, 2015.

Strategic Highlights

In 3Q2015, we sought to execute our “Connection” strategy via fostering a healthy mobile ecosystem with enriched O2O user experiences, and via strengthening our relationship with strategic partners, bringing our own and our partners’ products and services to China consumers via various platforms. Key initiatives this quarter included:

- Driving the adoption of our payment services, QQ Wallet and Weixin Pay, via enriching payment scenarios, including highly frequent O2O service transactions;
- Optimizing O2O user experience on our platforms via streamlining user activities, including discovering, selecting, paying for and sharing consumer feedback on O2O services;
- Moving forward in monetizing our mobile traffic via enhanced performance-based advertising services;

- Revamping our smart phone game strategy, which contributed to an uptick in our smart phone game revenue;
- Launching the first 9.9 Charity Day, in which we and our partners facilitated Internet users to donate to a range of charitable initiatives on or around September 9, via leveraging our platforms and payment services.

Business Review and Outlook

Divisional and Product Highlights

Operating information

- Monthly active user accounts (“MAU”) of QQ was 860 million, an increase of 5% YoY.
- Smart device MAU of QQ was 639 million, an increase of 18% YoY.
- Peak concurrent user accounts (“PCU”) of QQ was 239 million, an increase of 10% YoY.
- Combined MAU of Weixin and WeChat were 650 million, an increase of 39% YoY.
- MAU of Qzone was 653 million, an increase of 4% YoY.
- Smart device MAU of Qzone was 577 million, an increase of 14% YoY.
- Fee-based VAS registered subscriptions were 89 million, the same as the third quarter of 2014.

Key Platforms

- For QQ, smart device MAU increased by 18% YoY to 639 million at the end of the quarter, while overall PCU increased by 10% YoY to 239 million. QQ is the most popular social platform for young and entertainment-driven users in China. Mobile QQ usage benefited from enriched QQ Group functionalities for popular user scenarios, such as schoolwork project assignment cooperation for students and a near-by function for finding new friends. QQ Wallet gained popularity mainly due to increased C2C transactions, such as red envelope gifting.
- For Qzone, smart device MAU increased by 14% YoY to 577 million at the end of the quarter. User activity benefited from enhanced features in areas such as photo editing.
- For Weixin and WeChat together, MAU reached 650 million at the end of the quarter, representing YoY growth of 39%. Weixin is a fast-growing mobile-focused social platform that attracts a broad range of users, including those who did not use instant messaging before. We enhanced user experience by upgrading voice and video communication functions, and by adding user tools for group chatting. We further drove the adoption of Weixin Pay via increased eCommerce and O2O service transactions, and via enhanced popularity of C2C money transfers.

As we enrich payment scenarios and invest in initiatives to deepen users’ mobile payment habit, we are incurring significant bank handling fees on the C2C money transfers which we offer to users largely for free. We believe such cost represents a worthwhile investment for the future given the rapid growth in users binding their bank cards to their Weixin Pay or QQ Wallet accounts, and the fast increase in monthly usage of such accounts. The aggregate number of Weixin Pay and QQ Wallet accounts bound with bank cards exceeded 200 million in September.

VAS

In 3Q2015, our social networks business achieved 32% YoY revenue growth as we improved mobile privileges and enriched digital content subscription services. We will continue to add premium content for our reading, music and video subscription services.

In online games, we began executing on our new smart phone game strategy and sustained our market leadership.

- For PC client games, we achieved low double-digit YoY revenue growth thanks to increased contributions from key titles and enhanced user engagement.
- For smart phone games, we generated 60% YoY revenue growth on a gross-to-gross basis, with approximately RMB5.3 billion revenue in the third quarter. We achieved or retained leadership in multiple genres, such as running, MOBA, shooting and board games, as we leveraged our experience operating in multiple categories in PC client games.

Looking forward, we aim to continue developing our smart phone game operations via driving:

- Content: penetrating high-revenue, low-DAU smart phone game genres, such as RPGs, with titles based on proven IPs, such as The Legend of MIR 2;
- Gameplay: pioneering new smart phone game genres, such as shooting and MOBA games, by leveraging our experiences in developing new PC client game genres in China;
- Platform: building player communities for low-ARPU, high-DAU, smart phone game genres, such as playing card and board games, within and on top of our social networks.

Online Advertising

In 3Q2015, our online advertising business achieved rapid YoY revenue growth, mainly reflecting an enlarged advertiser base and more traffic on our platforms. More than 65% of our total advertising revenues was generated on mobile platforms. Looking forward, we will continue investing in premium video content, expanding our mobile advertising inventory and enhancing our performance-based advertising service capabilities.

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



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 Company 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 Company'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 Company'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 Company'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	
	3Q2015	3Q2014	3Q2015	2Q2015
Revenues	26,594	19,808	26,594	23,429
VAS	20,547	16,047	20,547	18,428
Online advertising	4,938	2,440	4,938	4,073
Others ¹	1,109	1,321	1,109	928
Cost of revenues	(11,014)	(7,167)	(11,014)	(8,991)
Gross profit	15,580	12,641	15,580	14,438
<i>Gross margin</i>	59%	64%	59%	62%
Interest income	559	452	559	598
Other gains, net	614	118	614	612
Selling and marketing expenses	(2,042)	(1,906)	(2,042)	(1,601)
General and administrative expenses	(4,380)	(3,790)	(4,380)	(4,011)
Operating profit	10,331	7,515	10,331	10,036
<i>Operating margin</i>	39%	38%	39%	43%
Finance costs, net	(481)	(317)	(481)	(341)
Share of losses of associates and joint ventures	(702)	(139)	(702)	(452)
Profit before income tax	9,148	7,059	9,148	9,243
Income tax expense	(1,564)	(1,383)	(1,564)	(1,847)
Profit for the period	7,584	5,676	7,584	7,396
<i>Net margin</i>	29%	29%	29%	32%
Attributable to:				
Equity holders of the Company	7,445	5,657	7,445	7,314
Non-controlling interests	139	19	139	82
Non-GAAP profit attributable to equity holders of the Company	8,280	6,577	8,280	7,975
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	0.800	0.612	0.800	0.787
- diluted	0.792	0.605	0.792	0.778

¹ In light of the reduction in size of our eCommerce business, we include the eCommerce in the "Others" business segment in our financial statements from the first quarter of 2015 onwards. Comparative figures have been reclassified to conform to the new presentation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited		Unaudited	
	3Q2015	3Q2014	3Q2015	2Q2015
Profit for the period	7,584	5,676	7,584	7,396
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	287	30	287	(168)
Net gains/(losses) from changes in fair value of available-for-sale financial assets	1,298	(959)	1,298	4,795
Currency translation differences	1,303	(15)	1,303	(367)
Total comprehensive income for the period	10,472	4,732	10,472	11,656
Attributable to:				
Equity holders of the Company	10,316	4,711	10,316	11,594
Non-controlling interests	156	21	156	62

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		
	3Q2015	2Q2015	3Q2014
EBITDA (a)	10,806	10,258	8,174
Adjusted EBITDA (a)	11,569	10,899	8,720
Adjusted EBITDA margin (b)	44%	47%	44%
Interest expense	373	399	266
Net cash (c)	21,239	21,663	21,283
Capital expenditures (d)	1,653	2,841	1,060

Note:

- (a) 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.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net cash represents period end balance and is calculated as cash and cash equivalents, term deposits, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licences).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB millions (unless otherwise stated)

	<u>Unaudited</u>	<u>Unaudited</u>
	<u>September 30 2015</u>	<u>June 30 2015</u>
ASSETS		
Non-current assets		
Fixed assets	8,879	8,528
Construction in progress	4,434	4,005
Investment properties	264	265
Land use rights	2,274	2,286
Intangible assets	13,184	10,285
Investments in associates	57,431	53,446
Investments in redeemable preference shares of associates	5,767	4,776
Investments in joint ventures	554	566
Deferred income tax assets	727	621
Available-for-sale financial assets	31,446	26,370
Prepayments, deposits and other assets	3,873	2,115
Term deposits	3,674	3,619
	<u>132,507</u>	<u>116,882</u>
Current assets		
Inventories	240	238
Accounts receivable	6,821	5,536
Prepayments, deposits and other assets	11,809	9,544
Term deposits	24,976	17,329
Restricted cash	38,810	20,262
Cash and cash equivalents	46,714	48,271
	<u>129,370</u>	<u>101,180</u>
Total assets	<u><u>261,877</u></u>	<u><u>218,062</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In RMB millions (unless otherwise stated)

	Unaudited September 30 2015	Unaudited June 30 2015
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	-	-
Share premium	6,810	6,155
Shares held for share award schemes	(1,867)	(1,405)
Other reserves	10,286	7,238
Retained earnings	93,059	85,614
	108,288	97,602
Non-controlling interests	2,715	2,622
Total equity	111,003	100,224
LIABILITIES		
Non-current liabilities		
Borrowings	7,284	4,280
Notes payable	40,130	37,162
Long-term payables	4,409	1,881
Deferred income tax liabilities	3,232	3,017
Deferred revenue	3,307	3,000
	58,362	49,340
Current liabilities		
Accounts payable	12,418	10,311
Other payables and accruals	51,467	32,085
Borrowings	6,711	4,280
Notes payable	-	1,834
Current income tax liabilities	1,993	1,584
Other tax liabilities	496	374
Deferred revenue	19,427	18,030
	92,512	68,498
Total liabilities	150,874	117,838
Total equity and liabilities	261,877	218,062
Net current assets	36,858	32,682
Total assets less current liabilities	169,365	149,564

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

	As reported	Adjustments					1. Non-GAAP ¹
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/losses on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
<i>RMB in millions, unless specified</i>							
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%
Unaudited three months ended June 30 2015							
Operating profit	10,036	641	18	(1,487)	56	1,052	10,316
Profit for the period	7,396	720	18	(1,399)	300	1,057	8,092
Profit attributable to equity holders	7,314	699	17	(1,399)	287	1,057	7,975
Operating margin	43%						44%
Net margin	32%						35%
Unaudited three months ended September 30 2014							
Operating profit	7,515	546	152	(159)	15	195	8,264
Profit for the period	5,676	645	152	(187)	146	195	6,627
Profit attributable to equity holders	5,657	635	137	(187)	144	191	6,577
Operating margin	38%						42%
Net margin	29%						33%

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 Company, and other incentives
- (b) (Gains)/ losses, net on deemed disposals of investee companies and disposals of investee companies and businesses
- (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

¹ Since the second quarter of 2015, we have included relevant non-GAAP adjustments for our material associates in our non-GAAP adjustments. We adopted the new presentation in order to more clearly illustrate our non-GAAP financial measures, and to be more consistent with what we believe to be industry practice. Comparative figures have been adjusted to conform to the new presentation.