

For Immediate Release

Tencent Announces 2014 Third Quarter Results

Hong Kong, November 12, 2014 –Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 00700), a leading provider of comprehensive Internet services in China, today announced the unaudited consolidated results for the third quarter of 2014 ended September 30, 2014.

Key Highlights

- Total revenues were RMB19,808 million (USD3,220 million¹), an increase of 28% over the third quarter of year ended September 30, 2013 (“YoY”).
- Gross profit was RMB12,641 million (USD2,055 million), an increase of 49% YoY. Gross margin increased to 64% from 55% for the third quarter of 2013.
- Operating profit was RMB7,515 million (USD1,221 million), an increase of 56% YoY. Operating margin increased to 38% from 31% for the third quarter of 2013.
- Profit for the period was RMB5,676 million (USD923 million), an increase of 46% YoY. Net margin increased to 29% from 25% for the third quarter of 2013.
- Profit attributable to equity holders of the Company was RMB5,657 million (USD919 million), an increase of 46% YoY.
- Basic earnings per share² were RMB0.612 and diluted earnings per share² were RMB0.605.
- On a non-GAAP basis³, excluding share-based compensation, deemed disposal gains, amortization of intangible assets and impairment provision:
 - Operating profit was RMB8,264 million (USD1,343 million), an increase of 55% YoY while operating margin increased to 42% from 34% for the third quarter of 2013.
 - Profit for the quarter was RMB6,483 million (USD1,054 million), an increase of 47% YoY while net margin increased to 33% from 28% for the third quarter of 2013.
 - Profit attributable to equity holders of the Company was RMB6,433 million (USD1,046 million), an increase of 47% YoY.
 - Basic earnings per share were RMB0.696 and diluted earnings per share were RMB0.688.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “We achieved another quarter of solid growth in our platforms, revenue and earnings. Our online advertising business expanded particularly swiftly, as we deployed targeted performance-based advertising on Mobile Qzone and Weixin Official Accounts. Given our traffic leadership and logged-in relationship with users, together with the proven scale of performance-based advertising services in China and overseas, we see ample scope for growth in our performance-based advertising business. During the quarter, we also retained our industry leadership in mobile and PC games, increased the market share of our app store YingYongBao significantly, and reinvigorated our subscription products via enhanced mobile privileges. Looking forward, we will deepen our partnerships with vertical leaders and continue to invest in our platforms, products, and people.”

¹ Figures stated in USD are based on USD1 to RMB6.1525

² EPS was stated after taking into account the effect of Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.

³ Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustment. Comparative figures have been restated to conform to the new presentation.

Financial Review

Value Added Services (VAS). On a YoY basis, revenues increased by 38% to RMB16,047 million for the third quarter of 2014. Online games revenues increased by 34% to RMB11,324 million. This primarily reflected revenue growth in PC client games, driven by our major titles, recently launched titles and increased contributions from international markets. Revenues from smart phone games integrated with Mobile QQ and Weixin also grew, with an expanded user base and full quarter revenue contribution compared to the same period last year. Social networks revenues increased by 47% to RMB4,723 million, due to increased item sales on mobile platforms and renewed growth of subscription revenues, as we enhanced our mobile privileges and mobile user experience for QQ Membership, Super VIP and Qzone subscription service.

Online advertising. On a YoY basis, revenues increased by 76% to RMB2,440 million for the third quarter of 2014. This was driven by: (1) an increase in revenues from video advertising, due to underlying viewer growth and the non-recurring impact of airing the Voice of China 3 and FIFA World Cup content; and (2) enhanced revenues from performance-based social advertising, primarily due to Mobile Qzone.

eCommerce transactions. On a YoY basis, revenues decreased by 81% to RMB459 million for the third quarter of 2014. This primarily reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Yixun business from principal to marketplace operations, resulting in a significant decline in revenues from principal eCommerce transactions.

Other Key Financial Information

Share-based compensation was RMB698 million for the third quarter of 2014, up 46% YoY.

EBITDA was RMB8,174 million, up 55% YoY. Adjusted EBITDA was RMB8,720 million, up 56% YoY.

Capital expenditure was RMB1,060 million for the third quarter of 2014, down 35% YoY.

For the third quarter of 2014, free cash flow was RMB6,974 million, up 69% YoY.

Net cash position was RMB21,283 million down 38% YoY, as we continue to invest for the long term, with strategic investments in mobile game developers and offline-to-online service providers. The fair market value of our listed associates and Available-for-Sale financial assets totaled RMB61 billion at the end of the third quarter of 2014.

Business Review and Outlook

Divisional and Product Highlights

- Key platform statistics:
 - MAU of QQ was 820 million, an increase of 1% YoY.
 - Smart device MAU of QQ was 542 million, an increase of 36% YoY.
 - PCU of QQ was 217 million, an increase of 22% YoY.
 - Combined MAU of Weixin and WeChat were 468 million, an increase of 39% YoY.
 - MAU of Qzone was 629 million, an increase of 1% YoY.
 - Smart device MAU of Qzone was 506 million, an increase of 26% YoY.
 - Fee-based VAS registered subscriptions were 89 million, stable YoY.

Key Platforms

In the third quarter of 2014, QQ and Qzone benefited from further growth in mobile user base and enhanced user engagement. For QQ, smart device MAU increased by 36% YoY to 542 million at the end of the quarter. Mobile QQ experienced enhanced popularity of location-based groups and growth in the user base of Mobile QQ Wallet. New lifestyle services, including shopping, restaurant deals and health monitoring, were integrated with Mobile QQ to deepen its connection with users' daily lives. For Qzone, smart device MAU increased by 26% YoY to 506 million at the end of the quarter.

Combined MAU of Weixin and WeChat reached 468 million at the end of the third quarter of 2014, representing YoY growth of 39%. We deepened user interaction with the launch of a short video sharing feature, and we improved content discovery through integrated in-application search. Weixin Payment gained popularity as we focused on enhancing its functionalities. We extended the "shake" function to enhance the real-time engagement of Weixin users with TV programmers, such as the Voice of China 3, via interactive games and social sharing.

Our media platforms extended their leadership, supported by robust growth in mobile traffic. Tencent Video achieved significant user growth and deepened user engagement through enriched content, enhanced content management and product innovation. We realigned our organisational resources to better focus on video and mobile, and to leverage our strengths by integrating news and social media.

VAS

In the third quarter of 2014, our social networks business benefited from YoY growth in item sales on our mobile platforms. Revenue growth at our subscription services improved, reflecting our enhancements to mobile privileges and mobile user experience for QQ Membership, Super VIP and Qzone subscription service.

Our online games business continued to expand. For PC client games, the quarter saw a healthy YoY revenue increase as we benefited from growth in major titles, recently launched titles and higher contributions from international markets. For mobile games, we consolidated our position as China's leading publisher for smart phone games. We worked with more third-party developers on new titles and achieved encouraging results. For instance, Modoo Marble was ranked the most downloaded game in China's iOS App Store in August 2014, and Candy Crush Saga became the most downloaded game in September 2014, according to App Annie. Total revenues generated from smart phone games integrated with Mobile QQ and Weixin amounted to approximately RMB2.6 billion in the third quarter of 2014, representing a strong year-on-year increase but a sequential revenue decline in the quarter primarily due to delayed launches of upgrades, flowing from the mandated introduction of guest access options in these games. The integration of guest access options was largely completed in October 2014. Looking ahead, we aim to enrich our PC and mobile game portfolios with new titles in different genres.

Online advertising

Our online advertising business achieved rapid YoY revenue growth in the third quarter of 2014, driven by video advertising and performance-based social advertising. The growth in video advertising reflected underlying viewer growth and the non-recurring impact of airing the Voice of China 3 and FIFA World Cup content, while mobile performance-based social advertising benefited from news feed advertising inventory on Mobile Qzone and, to a lesser extent, from advertising on Weixin Official Accounts. Approximately 45% of our performance-based advertising revenues was generated on mobile platforms in the third quarter of 2014.

eCommerce Transactions

In the third quarter of 2014, our eCommerce transactions business continued to experience a significant drop in revenues and costs, though a sequential improvement in gross profit. This reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Yixun business from principal to marketplace operations.

For other detailed disclosure, please refer to our website www.tencent.com/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, seek entertainment, and shop online through our integrated platforms. Our diversified services include QQ, Weixin and WeChat for communications; Qzone for social networking; QQ Game Platform for online games; QQ.com for information; as well as our eCommerce services.

Our company was founded in Shenzhen in 1998 and went public on the Main Board of the Hong Kong Stock Exchange in 2004. The Company has been one of the 50 constituent stocks of the Hang Seng Index since June 10, 2008, under stock code 00700. We seek to evolve with the Internet by investing in innovation, providing a hospitable environment for our partners, and staying close to our 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 and non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS, have been presented in this press release. 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 acquisitions.

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	
	3Q2014	3Q2013	3Q2014	2Q2014
Revenues	19,808	15,535	19,808	19,746
VAS	16,047	11,635	16,047	15,713
Online advertising	2,440	1,390	2,440	2,064
eCommerce transactions	459	2,359	459	1,324
Others	862	151	862	645
Cost of revenues	(7,167)	(7,036)	(7,167)	(7,574)
Gross profit	12,641	8,499	12,641	12,172
Gross margin	64%	55%	64%	62%
Interest income	452	336	452	406
Other gains, net	118	66	118	691
Selling and marketing expenses	(1,906)	(1,465)	(1,906)	(1,973)
General and administrative expenses	(3,790)	(2,621)	(3,790)	(3,453)
Operating profit	7,515	4,815	7,515	7,843
Operating margin	38%	31%	38%	40%
Finance (costs), net	(317)	(22)	(317)	(354)
Share of (losses)/ profits of associates and joint ventures	(139)	39	(139)	23
Profit before income tax	7,059	4,832	7,059	7,512
Income tax expense	(1,383)	(955)	(1,383)	(1,686)
Profit for the period	5,676	3,877	5,676	5,826
Net margin	29%	25%	29%	30%
Attributable to:				
Equity holders of the Company	5,657	3,867	5,657	5,836
Non-controlling interests	19	10	19	(10)
Non-GAAP profit attributable to equity holders of the Company	6,433	4,371	6,433	5,874
Earnings per share (GAAP)				
- basic (RMB)	0.612	0.421	0.612	0.632
- diluted (RMB)	0.605	0.414	0.605	0.623

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited		Unaudited	
	3Q2014	3Q2013	3Q2014	2Q2014
Profit for the period	5,676	3,877	5,676	5,826
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	30	-	30	5
Net (losses)/gains from changes in fair value of available-for-sale financial assets	(959)	2,233	(959)	730
Currency translation differences	(15)	30	(15)	(11)
Total comprehensive income for the period	4,732	6,140	4,732	6,550
Attributable to:				
Equity holders of the Company	4,711	6,128	4,711	6,556
Non-controlling interests	21	12	21	(6)

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		
	3Q2014	3Q2013	2Q2014
EBITDA (a)	8,174	5,257	8,018
Adjusted EBITDA (a)	8,720	5,601	8,445
Adjusted EBITDA margin (b)	44%	36%	43%
Interest expense	266	99	224
Net cash (c)	21,283	34,400	22,485
Capital expenditures (d)	1,060	1,621	917

Note:

- EBITDA consists of operating profit less interest income, and plus 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 game and other content licences).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB millions (unless otherwise stated)

	Unaudited Sep 30 2014	Unaudited Jun 30 2014
ASSETS		
Non-current assets		
Fixed assets	8,231	8,336
Construction in progress	2,806	2,510
Investment properties	269	270
Land use rights	822	802
Intangible assets	4,331	4,181
Interests in associates	49,817	42,604
Investment in joint ventures	18	18
Deferred income tax assets	289	317
Available-for-sale financial assets	13,735	14,180
Prepayments, deposits and other assets	1,194	1,263
Term deposits	4,931	6,719
	86,443	81,200
Current assets		
Inventories	154	656
Accounts receivable	4,293	4,185
Prepayments, deposits and other assets	7,660	7,291
Term deposits	17,195	18,139
Restricted cash	6,696	6,523
Cash and cash equivalents	33,454	32,639
	69,452	69,433
Total assets	155,895	150,633
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	-	-
Share premium	4,062	3,601
Shares held for share award schemes	(1,312)	(898)
Other reserves	3,623	4,523
Retained earnings	68,413	62,756
	74,786	69,982
Non-controlling interests	608	493
Total equity	75,394	70,475
LIABILITIES		
Non-current liabilities		
Borrowings	5,537	4,030
Notes payable	24,207	26,192
Deferred income tax liabilities	2,176	1,917
Long-term payables	1,272	1,227
Deferred revenue	3,732	3,966
	36,924	37,332
Current liabilities		
Accounts payable	7,441	8,362
Other payables and accruals	14,966	13,517
Borrowings	2,710	4,790
Notes payable	1,843	-
Current income tax liabilities	1,123	839
Other tax liabilities	541	649
Deferred revenue	14,953	14,669
	43,577	42,826
Total liabilities	80,501	80,158
Total equity and liabilities	155,895	150,663

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

<i>RMB in millions, unless specified</i>	As reported	Adjustments					Non-GAAP
		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)	
Unaudited three months ended Sep 30 2014							
Operating profit	7,515	546	152	(159)	15	195	8,264
<i>Operating margin</i>	38%						42%
Profit for the period	5,676	546	152	(162)	76	195	6,483
<i>Net margin</i>	29%						33%
Profit attributable to equity holders	5,657	536	137	(162)	74	191	6,433
Unaudited three months ended Sep 30 2013							
Operating profit	4,815	344	134	(5)	38	-	5,326
<i>Operating margin</i>	31%						34%
Profit for the period	3,877	344	134	(5)	58	-	4,408
<i>Net margin</i>	25%						28%
Profit attributable to equity holders	3,867	340	119	(5)	50	-	4,371
Unaudited three months ended Jun 30 2014							
Operating profit	7,843	427	160	(1,082)	15	325	7,688
<i>Operating margin</i>	40%						39%
Profit for the period	5,826	427	160	(1,052)	204	325	5,890
<i>Net margin</i>	30%						30%
Profit attributable to equity holders	5,836	418	145	(1,052)	202	325	5,874

Note:

- (a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) (Gains)/losses, net on deemed disposals of investees and disposals of investees 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