

For Immediate Release

TENCENT ANNOUNCES 2014 FOURTH QUARTER AND ANNUAL RESULTS

Hong Kong, March 18, 2015 – 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 fourth quarter of 2014 (“4Q2014”) and audited consolidated results for the year ended December 31, 2014 (“FY2014”).

FY2014 Key Highlights:

- Total revenues were RMB78,932 million (USD12,899 million¹), an increase of 31% over the year ended December 31, 2013 (“YoY”).
- Operating profit was RMB30,542 million (USD4,991 million), an increase of 59% YoY. Operating margin increased to 39% from 32% last year.
- Profit for the year was RMB23,888 (USD3,904 million), an increase of 53% YoY. Net margin increased to 30% from 26% last year.
- Profit attributable to equity holders of the Company for the year was RMB23,810 million (USD3,891 million), an increase of 54% YoY.
- Basic earnings per share² were RMB2.579. Diluted earnings per share² were RMB2.545.
- The Board has recommended a final dividend of HKD0.36 per share for FY2014 (2013: HKD1.20 per share before the effect of the Share Subdivision, or HKD0.24 per share after the effect of the Share Subdivision), subject to approval of the shareholders.
- On a non-GAAP basis³, excluding share-based compensation, deemed disposal gains, amortization of intangible assets and impairment provision:
 - Operating profit was RMB30,497 million (USD4,984 million), an increase of 49% YoY. Operating margin increased to 39% from 34% last year.
 - Profit for the year was RMB24,420 million (USD3,991 million), an increase of 42% YoY. Net margin increased to 31% from 28% last year.
 - Profit attributable to equity holders of the Company for the year was RMB24,224 million (USD3,959 million), an increase of 43% YoY.
 - Basic earnings per share was RMB2.624. Diluted earnings per share was RMB2.589.

4Q2014 Key Highlights:

- Total revenues were RMB20,978 million (USD3,428 million), an increase of 24% over the fourth quarter of 2013 (“YoY”).
- Operating profit was RMB7,394 million (USD1,208 million), an increase of 56% YoY. Operating margin increased to 35% from 28% last year.
- Profit for the period was RMB5,954 million (USD 973 million), an increase of 51% YoY. Net margin increased to 28% from 23% last year.

¹ Figures stated in USD are based on USD1 to RMB6.1190

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 effective 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.

- Profit attributable to equity holders of the Company for the quarter was RMB5,860 million (USD958 million), an increase of 50% YoY.
- Basic earnings per share were RMB0.632. Diluted earnings per share were RMB0.625.
- On a Non-GAAP basis, excluding share-based compensation, deemed disposal gains, amortization of intangible assets and impairment provision:
 - Operating profit was RMB8,068 million (USD1,319 million), an increase of 59% YoY. Operating margin increased to 38% from 30% last year.
 - Profit for the quarter was RMB6,841 million (USD1,118 million), an increase of 52% YoY. Net margin increased to 33% from 26% last year.
 - Profit attributable to equity holders of the Company for the quarter was RMB6,723 million (USD1,099 million), an increase of 51% YoY.
 - Basic earnings per share was RMB0.725. Diluted earnings per share was RMB0.717.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “During 2014, we made significant progress in a number of strategic initiatives that reinforced our leadership and enhanced our competitiveness. Our social platforms QQ and Weixin continued to innovate and grow. By leveraging our expertise in mobile Internet, we extended our leadership in games and online media, and made breakthroughs in emerging platforms such as online security, Android appstore, and mobile payments. We implemented our “Connection” strategy, in which we organically link our large user base with appropriate content and services, and we built strategic relationships with numerous best-of-breed vertical partners, through investment and business cooperation. We believe this strategy will enable us to create superior experiences for our users, and to participate in the growth of vertical opportunities, as the mobile Internet increasingly penetrates consumers’ daily lives.”

4Q2014 Financial Review

Value Added Services (“VAS”). Revenues from our VAS business increased by 44% YoY to RMB17,137 million. Online game revenues increased by 41% to RMB11,964 million. The increase was primarily driven by significant growth in revenues from smart phone games integrated with Mobile QQ and Weixin, mainly reflecting our expanded user base, our enriched game portfolio and, to a lesser extent, the impact of the aforementioned adoption of gross revenue recognition. Revenues from PC client games also increased. Social networks revenues grew by 50% to RMB5,173 million. The increase was mainly driven by higher in-game item sales within mobile platforms, as well as by subscription revenues from our QQ Membership, Super VIP, Qzone and digital content subscription services. If gross revenue recognition for smart phone games is adopted for the fourth quarter of 2013, revenues from our VAS business, online games, and social networks would have increased by 42%, 39% and 48% respectively for the fourth quarter of 2014.

Online advertising. Revenues from our online advertising business increased by 75% YoY to RMB2,627 million. The increase primarily reflected revenue growth in video advertising as a result of more viewers and enhanced revenues from performance-based social advertising on mobile driven by Mobile Qzone and Weixin Official Accounts.

eCommerce transactions. Revenues from our eCommerce transactions business decreased by 87% YoY to RMB446 million. The decline mainly 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.

Other Key Financial Information for 4Q2014

Share-based compensation was RMB644 million, up 39% YoY.

EBITDA was RMB7,929 million, up 53% YoY. Adjusted EBITDA was RMB8,424 million, up 54% YoY.

Capital expenditure was RMB1,603 million, down 5% YoY.

Free cashflow was RMB9,181 million, up 76% YoY.

Net cash position totaled RMB22,758 million, down 37% YoY, due to strategic investments, partly offset by an increase in free cash flows generated during the year. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totaled RMB60 billion as at December 31 2014.

Strategic Highlights

In 2014, we focused on our “Connection” strategy, linking our users with content, services and hardware to enhance their lives online and offline. Leveraging our core communications and social platforms, Weixin, and Mobile QQ, we made significant progress in fostering a healthy mobile ecosystem which provides our users with an expanding range of products and services, taking advantage of our strengths such as unified login, users’ social graphs, multi-platform marketing capabilities, infrastructure support, payment solutions and insights into user needs.

During the year, we moved forward in monetising mobile Internet use, initially through smart phone games and performance-based social advertising. We invested heavily in content for businesses such as our literature service, music service, and video service, contributing to substantial traffic growth. Our portfolio of mobile utilities, including mobile security, browser and application store, achieved healthy market share gains. For example, YingYongBao became one of China’s leading Android application stores. We significantly expanded the user bases of our mobile payment platforms and we explored Internet finance opportunities with the launch of our wealth management platform and the inception of our bank affiliate, WeBank.

To complement our internal initiatives, we entered into a strategic transaction with JD.com to reposition our eCommerce business, and we continue to enrich our O2O ecosystem by making strategic investments in and partnering with industry leaders, including 58.com, Dianping, Dididache and Koudai Gouwu.

- From consumers’ perspective, we believe these and other partnerships enable our users to benefit from an expanding range of high quality products and services.
- From partners’ perspective, we believe our user activity is starting to contribute materially to our partners’ long-term growth. For example, we believe we direct substantial volumes of traffic to JD.com and 58.com.
- From our perspective, partnerships free up our internal resources to focus on the core strengths of our platforms, while enabling us to continue to benefit financially from the growth potential of the underlying industries via our significant equity stakes in partners.

In terms of balance sheet management, we established a USD5 billion global medium term note programme in April 2014 and subsequently issued various tranches of senior notes, with an aggregate principal amount of USD4.9 billion at the end of February 2015. We received a credit ratings upgrade from Moody's on our issuer and senior unsecured debt ratings from Baa1 to A3 in March 2014.

Business Review and Outlook

Divisional and Product Highlights

- Key platform statistics:
 - Monthly active user accounts ("MAU") of QQ was 815 million, an increase of 1% YoY.
 - Smart device MAU of QQ was 576 million, an increase of 33% YoY.
 - Peak concurrent user accounts ("PCU") of QQ was 217 million, an increase of 21% YoY.
 - Combined MAU of Weixin and WeChat were 500 million, an increase of 41% YoY.
 - MAU of Qzone was 654 million, an increase of 5% YoY.
 - Smart device MAU of Qzone was 540 million, an increase of 30% YoY.
 - Fee-based VAS registered subscriptions were 84 million, a decrease of 6% YoY.

Key Platforms

In 2014, QQ and Qzone benefited from significant growth in China's mobile user base, and consolidated their leading positions in communications and social networking.

- For QQ, smart device MAU increased by 33% YoY to 576 million at the end of 2014, while overall PCU increased by 21% YoY to 217 million. During the year, we enhanced user engagement on Mobile QQ as we improved its community and sharing functions. We also cultivated an ecosystem for Mobile QQ users by integrating with O2O and other new services, including those provided by our strategic partners, and introducing Mobile QQ Wallet.
- For Qzone, smart device MAU increased by 30% YoY to 540 million at the end of 2014. User activity and stickiness improved during the year, benefiting from enhanced features and improved user experience.

Combined MAU of Weixin and WeChat reached 500 million at the end of 2014, representing YoY growth of 41%.

- For Weixin, we strengthened user interaction and engagement with new features and services, and increased the adoption of Weixin Official Accounts.
- For WeChat, we continued to promote user engagement in selected overseas markets, especially emerging Asian markets.

The aggregate number of user accounts that have integrated bank cards with Mobile QQ Wallet and Weixin Payment exceeded 100 million as we enriched payment scenarios and launched initiatives to build user awareness and habit, such as Red Packet gifting.

Our online media platforms extended their leadership in China. Tencent News leveraged enhanced content, improved user experience and plug-ins to Mobile QQ and Weixin to achieve significant user growth and became the leading mobile news platform in China. Tencent Video improved its market position with a strong uplift in user base and traffic, thanks to enriched content and improved user experience.

VAS

In social networks, our business benefited from significant growth in in-game item sales on our mobile platforms, and higher subscription revenues as we enhanced the mobile privileges and mobile user experience for QQ Membership, Super VIP and Qzone subscription service. We also added more premium content for our literature, music, and video subscription services.

In online games, we extended our leadership in the China market from PC to mobile.

- For PC client games, revenue increased in 2014 as we benefited from growth in major titles and launch of new titles. League of Legends delivered a robust performance with significant growth in users and revenues.
- For mobile games, we achieved strong revenue growth during 2014, becoming the largest publisher in China and one of the largest globally. Through the year, we diversified our portfolio of smart phone games from casual to mid-core and self-developed to third-party, enriching the choices available to users.

Looking ahead, we aim to diversify and capitalize on our strong title pipeline for PC and mobile games to penetrate into new genres and solidify our market leadership.

Online Advertising

In 2014, our online advertising business benefited from revenue growth across the brand display and performance display categories. During the year, video advertising registered a robust revenue increase due to viewer traffic growth, including traffic arising from the Voice of China 3 program and FIFA World Cup content. We made significant progress in mobile advertising on Mobile Qzone and Weixin Official Accounts. Looking forward, we aim to allocate more inventory toward performance advertising, including inventory on Weixin Moments and YingYongBao. We continue to invest aggressively in video content to further build our traffic, including our recent exclusive partnerships with the HBO and NBA.

eCommerce Transactions

Our eCommerce transaction business underwent a strategy transition subsequent to our strategic transaction with JD.com in March 2014. Shifting our traffic to JD.com led to a substantial reduction in our eCommerce revenues, costs, and losses. Looking forward, we believe the strategy transition enables us to benefit more efficiently from the growth of eCommerce in China via our significant equity stakes in best-in-class eCommerce companies such as JD.com, and via generating performance-based advertising revenues from eCommerce advertisers.

Outlook and strategies for 2015

During 2015, in addition to developing our ongoing businesses, we intend to cultivate an increasingly vibrant mobile ecosystem, bringing our own and our partners' products and services to China consumers. Key aspects of cultivating this ecosystem include:

- Working with existing and prospective strategic partners in various verticals to deliver better O2O and transactional services to users;
- Developing our digital content businesses in partnership with key content providers, such as online literature authors, the HBO, NBA, Sony Music, Warner Music, and YG Entertainment;
- Growing our performance-based advertising business by adding more mobile advertising inventory, enhancing advertiser tools, and expanding our advertiser base, all while balancing user experience; and
- Promoting use of our payment services through enriched payment scenarios.

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 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 hospitable 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 and non-GAAP profit attributable to equity holders of the Company, 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		Audited	
	4Q2014	4Q2013	2014	2013
Revenues	20,978	16,970	78,932	60,437
VAS	17,137	11,932	63,310	44,985
Online advertising	2,627	1,497	8,308	5,034
eCommerce transactions	446	3,324	4,753	9,796
Others	768	217	2,561	622
Cost of revenues	(8,332)	(8,198)	(30,873)	(27,778)
Gross profit	12,646	8,772	48,059	32,659
<i>Gross margin</i>	<i>60%</i>	<i>52%</i>	<i>61%</i>	<i>54%</i>
Interest income	443	377	1,676	1,314
Other gains, net	343	405	2,759	904
Selling and marketing expenses	(2,063)	(2,033)	(7,797)	(5,695)
General and administrative expenses	(3,975)	(2,770)	(14,155)	(9,988)
Operating profit	7,394	4,751	30,542	19,194
<i>Operating margin</i>	<i>35%</i>	<i>28%</i>	<i>39%</i>	<i>32%</i>
Finance (costs)/ income, net	(273)	6	(1,182)	(84)
Share of (losses)/profits of associates and joint ventures	(275)	(18)	(347)	171
Profit before income tax	6,846	4,739	29,013	19,281
Income tax expense	(892)	(808)	(5,125)	(3,718)
Profit for the period	5,954	3,931	23,888	15,563
<i>Net margin</i>	<i>28%</i>	<i>23%</i>	<i>30%</i>	<i>26%</i>
Attributable to:				
Equity holders of the Company	5,860	3,911	23,810	15,502
Non-controlling interests	94	20	78	61
Non-GAAP profit attributable to equity holders of the Company	6,723	4,440	24,224	16,975
Earnings per share (GAAP)				
- basic (RMB)	0.632	0.425	2.579	1.693
- diluted (RMB)	0.625	0.418	2.545	1.660

Note:

Adoption of gross revenue recognition for smart phone games

Starting from the fourth quarter of 2014, we recognized revenues from smart phone games on a gross basis, mainly to reflect changes in our co-operation models that resulted in us becoming the principal, rather than agent, for certain licensed games we publish on an exclusive basis. Correspondingly, we recorded revenue sharing with third-party developers and related channel costs in costs of revenues, instead of treating them as contra-revenue items. For the fourth quarter of 2014, the change increased our revenues from smart phone games integrated with Mobile QQ and Weixin by RMB907 million, and related cost of revenues by the same amount. The change did not impact the Group's profits. We believe the change brings us closer into line with general industry practice.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited		Audited	
	4Q2014	4Q2013	2014	2013
Profit for the period	5,954	3,931	23,888	15,563
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	38	48	81	48
Net (losses)/gains from changes in fair value of available-for-sale financial assets	(1,439)	830	(1,705)	2,825
Currency translation differences	(280)	(50)	(289)	(60)
Total comprehensive income for the period	4,273	4,759	21,975	18,376
Attributable to:				
Equity holders of the Company	4,183	4,746	21,891	18,327
Non-controlling interests	90	13	84	49

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		Audited	
	4Q2014	4Q2013	2014	2013
EBITDA (a)	7,929	5,184	30,908	20,566
Adjusted EBITDA (a)	8,424	5,467	32,710	21,734
Adjusted EBITDA margin (b)	40%	32%	41%	36%
Interest expense	264	105	866	394
Net cash (c)	22,758	36,218	22,758	36,218
Capital expenditures (d)	1,603	1,679	4,718	5,799

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)

	Audited	
	As at 31 December	
	2014	2013
ASSETS		
Non-current assets		
Fixed assets	7,918	8,693
Construction in progress	3,830	2,041
Investment properties	268	-
Land use rights	751	871
Intangible assets	9,304	4,103
Investments in associates	51,131	10,867
Investments in redeemable preference shares of associates	2,941	1,119
Investments in joint ventures	63	9
Deferred income tax assets	322	431
Available-for-sale financial assets	13,277	12,515
Prepayments, deposits and other assets	1,209	1,480
Term deposits	4,831	11,420
	95,845	53,549
Current assets		
Inventories	244	1,384
Accounts receivable	4,588	2,955
Prepayments, deposits and other assets	7,804	5,365
Term deposits	10,798	19,623
Restricted cash	9,174	4,131
Cash and cash equivalents	42,713	20,228
	75,321	53,686
Total assets	171,166	107,235

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In RMB millions (unless otherwise stated)

	Audited	
	As at 31 December	
	2014	2013
EQUITY		
Equity attributable to the Company's equity holders of the Company		
Share capital	-	-
Share premium	5,131	2,846
Shares held for share award schemes	(1,309)	(871)
Other reserves	2,129	3,746
Retained earnings	74,062	52,224
	80,013	57,945
Non-controlling interests	2,111	518
Total equity	82,124	58,463
LIABILITIES		
Non-current liabilities		
Borrowings	5,507	3,323
Notes payable	25,028	9,141
Long-term payables	2,052	1,600
Deferred income tax liabilities	2,942	1,441
Deferred revenue	3,478	-
	39,007	15,505
Current liabilities		
Accounts payable	8,683	6,680
Other payables and accruals	19,123	10,246
Borrowings	3,215	2,589
Notes payable	1,834	-
Current income tax liabilities	461	1,318
Other tax liabilities	566	593
Deferred revenue	16,153	11,841
	50,035	33,267
Total liabilities	89,042	48,772
Total equity and liabilities	171,166	107,235
Net current assets	25,286	20,419
Total assets less current liabilities	121,131	73,968

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

RMB in millions, unless specified	As reported	Adjustments					Non-GAAP	
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/Losses on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)		Special dividend Income (e)
Year ended 31 December 2014								
Operating profit	30,542	1,082	695	(5,111)	59	2,510	-	30,497
Profit for the year	23,888	1,082	695	(5,038)	563	2,510	-	24,420
Profit attributable to equity holders	23,810	1,770	637	(5,054)	555	2,506	-	24,224
Operating margin	39%							39%
Net margin	30%							31%
Year ended 31 December 2013								
Operating profit	19,194	1,168	618	(272)	139	87	(438)	20,496
Profit for the year	15,563	1,168	618	(88)	240	87	(438)	17,150
Profit attributable to equity holders	15,502	1,155	547	(88)	210	87	(438)	16,975
Operating margin	32%							34%
Net margin	26%							28%

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS (continued)

RMB in millions, unless specified	As reported	Adjustments					Special dividend Income (e)	Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/Losses on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)		
Unaudited three months ended 31 December 2014								
Operating profit	7,394	495	149	(1,153)	13	1,170	-	8,068
Profit for the period	5,954	495	149	(1,155)	228	1,170	-	6,841
Profit attributable to equity holders	5,860	488	136	(1,158)	227	1,170	-	6,723
Operating margin	35%							38%
Net margin	28%							33%
Unaudited three months ended 30 September 2014								
Operating profit	7,515	546	152	(159)	15	195	-	8,264
Profit for the period	5,676	546	152	(162)	76	195	-	6,483
Profit attributable to equity holders	5,657	536	137	(162)	74	191	-	6,433
Operating margin	38%							42%
Net margin	29%							33%
Unaudited three months ended 31 December 2013								
Operating profit	4,751	283	180	(242)	24	87	-	5,083
Profit for the period	3,931	283	180	(58)	66	87	-	4,489
Profit attributable to equity holders	3,911	278	160	(58)	62	87	-	4,440
Operating margin	28%							30%
Net margin	23%							26%

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) (Gains)/ Losses, net on deemed disposal 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
- (e) Special dividend income from Mail.ru