

**For Immediate Release**

**TENCENT ANNOUNCES 2011 THIRD QUARTER RESULTS**

**Hong Kong, Nov 9, 2011** – Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 00700), a leading provider of Internet and mobile & telecommunications value-added services in China, today announced the unaudited consolidated results for the third quarter of 2011 ended September 30, 2011.

***Highlights of the Third Quarter of 2011:***

- § Total revenues were RMB7,496.2 million (USD1,179.6 million<sup>1</sup>), an increase of 11.2% over the second quarter of 2011 (“QoQ”) or an increase of 43.4% over the third quarter of 2010 (“YoY”).
- § Revenues from Internet value-added services (“IVAS”) were RMB6,003.1 million (USD944.6 million), an increase of 11.4% QoQ or an increase of 45.4% YoY.
- § Revenues from mobile & telecommunications value-added services (“MVAS”) were RMB844.9 million (USD133.0 million), an increase of 6.4% QoQ or an increase of 21.6% YoY.
- § Revenues from online advertising were RMB600.6 million (USD94.5 million), an increase of 17.2% QoQ or an increase of 57.0% YoY.
- § Gross profit was RMB4,834.7 million (USD760.8 million), an increase of 9.7% QoQ or an increase of 36.2% YoY. Gross margin decreased to 64.5% from 65.4% last quarter.
- § Operating profit was RMB2,991.6 million (USD470.8 million), an increase of 7.5% QoQ or an increase of 12.2% YoY. Operating margin decreased to 39.9% from 41.3% last quarter. Non-GAAP operating profit<sup>2</sup> was RMB3,378.2 million (USD531.6 million), an increase of 5.6% QoQ or an increase of 20.4% YoY. Non-GAAP operating margin decreased to 45.1% from 47.5% last quarter.
- § Profit for the period was RMB2,446.1 million (USD384.9 million), an increase of 4.4% QoQ or an increase of 12.8% YoY. Net margin decreased to 32.6% from 34.8% last quarter. Non-GAAP profit for the period<sup>2</sup> was RMB2,779.8 million (USD437.4 million), an increase of 3.2% QoQ or an increase of 20.5% YoY. Non-GAAP net margin decreased to 37.1% from 40.0% last quarter.
- § Profit attributable to equity holders of the Company for the period was RMB2,446.4 million (USD385.0 million), an increase of 4.1% QoQ or an increase of 13.6% YoY. Non-GAAP profit attributable to equity holders of the Company for the period<sup>2</sup> was RMB2,769.1 million (USD435.7 million), an increase of 3.1% QoQ or an increase of 20.8% YoY.
- § Basic earnings per share were RMB1.340. Diluted earnings per share were RMB1.314.
- § Key platform statistics:
  - Active Instant Messaging (“IM”) user accounts was 711.7 million, an increase of 1.4% QoQ or an increase of 11.8% YoY
  - Peak simultaneous online IM user accounts was 145.4 million, an increase of 6.4% QoQ or an increase of 22.5% YoY

<sup>1</sup> Figures stated in USD are based on USD1 to RMB6.3549

<sup>2</sup> See “Non-GAAP Financial Measures” section for more details on the reasons for presenting these measures

- Active Qzone user accounts was 536.9 million, an increase of 1.2% QoQ or an increase of 11.6% YoY; active Pengyou user accounts was 149.4 million, an increase of 15.5% QoQ or an increase of 175.6% YoY
- Peak simultaneous online QQ Game (for mini casual games only) user accounts was 8.0 million, an increase of 6.7% QoQ or an increase of 25.0% YoY
- Fee-based IVAS registered subscriptions was 77.5 million, an increase of 1.3% QoQ or an increase of 15.2% YoY
- Fee-based MVAS registered subscriptions was 31.2 million, an increase of 4.7% QoQ or an increase of 23.3% YoY

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “During the third quarter, we continued to deliver growth in operating metrics and revenue across key business segments. We are expanding our user base and delivering more value to our users through our social infrastructure. In particular, we are extending our social leadership from PC to mobile platforms, via popular applications such as Wireless QQ and Weixin. Looking forward, we will continue investing in product innovation and forging strategic partnerships to add value to our open platforms, enhance our user experiences, and generate long-term sustainable growth for our company.”

## **Financial Review for the Third Quarter of 2011**

IVAS revenues increased 11.4% QoQ to RMB6,003.1 million and represented 80.1% of our total revenues for the third quarter of 2011. Online game revenues increased 14.0% QoQ to RMB4,149.9 million. This mainly reflected the growth in Cross Fire, QQ Dancer, Dungeon and Fighter (“DnF”), QQ Game and QQ Speed, as well as contributions from League of Legends, and positive seasonality. For our community VAS, revenues increased 6.2% QoQ to RMB1,853.2 million, reflecting the growth in QQ Membership and Qzone. Revenues from QQ Membership benefited from subscriber growth mainly attributable to joint promotional activities related to our online games. Qzone revenues increased, primarily driven by the growth in the number of third-party applications offered on the platform.

MVAS revenues increased 6.4% QoQ to RMB844.9 million and represented 11.3% of our total revenues. This was primarily driven by the growth in revenues from our bundled SMS packages, mobile games and mobile books. The revenue growth of our MVAS continued to be affected by the service cancellation policy introduced by China Mobile in early 2011 which resulted in lower realisation rates.

Online advertising revenues increased 17.2% QoQ to RMB600.6 million and represented 8.0% of our total revenues. This was mainly due to positive seasonality and higher contributions from search and video advertising.

## **Other Key Financial Information for the Third Quarter of 2011**

Share-based compensation was RMB178.1 million for the third quarter of 2011 as compared with RMB190.3 million for the previous quarter.

Capital expenditure was RMB1,133.3 million for the third quarter of 2011 as compared with RMB943.0 million for the previous quarter.

The Company repurchased 5,297,000 shares on the Stock Exchange for an aggregate consideration of approximately RMB740.0 million as compared with 211,300 shares repurchased for an aggregate consideration of approximately RMB33.9 million in the previous quarter.

As at September 30, 2011, net cash position totaled RMB15,541.6 million which excluded unsecured short-term borrowings of RMB4,448.4 million.

As at September 30, 2011, the total number of shares of the Company in issue was 1.836 billion.

## **Business Review and Outlook**

Our IVAS revenues increased substantially in the third quarter of 2011, primarily driven by user growth across our major self-developed and licensed games. Our community VAS revenue growth has slowed because of the decelerating growth of China's Internet user base, plus the maturity of the QQ Farm and QQ Ranch social games. However, some of our newer community VAS products, such as our free and paid QQ Music service, are gaining traction. As for our MVAS business, revenues registered solid growth, and we offset a challenging regulatory environment by capitalising on user migration to the mobile Internet, as evidenced by the increasing popularity of our mobile social applications and mobile games. Our advertising business achieved significant revenue growth, assisted by positive seasonality and increased contributions from search and online video advertising. Looking ahead, the fourth quarter of each year historically presents weaker seasonality for our online game and online advertising businesses, while our MVAS business continues to face the challenges of a dynamic regulatory environment.

Our margins declined in the third quarter as we invested further in our strategic initiatives, including our open platform, Tencent Microblog, e-commerce, search, online videos and online security services, to help position us for long-term growth. During the period, we provided substantial sales and marketing support to new products and services such as League of Legends and our mobile QQ browser, and are generally pleased with the consumer responses.

The European sovereign debt crisis adds uncertainty to China's economic outlook. We are mindful of macroeconomic risks, and of the dynamic competitive environment in which we operate. However, we also see emerging opportunities as the Internet becomes more ubiquitous in everyday life, and will continue to invest selectively but forcefully against our strategic initiatives, while appropriately managing our risks and expenses.

### ***IM Platform***

During the third quarter of 2011, increasing usage of our IM services on mobile devices and the school summer holidays expanded our IM platform user base. Active user accounts at the end of the quarter increased by 11.8% on a year-on-year basis to 711.7 million. PCU registered 22.5% growth compared to the same period last year and reached 145.4 million. Looking forward, we

expect that our IM user expansion will moderate with the decelerating growth of China's Internet user base. We will instead be focused on enhancing user engagement, for example by offering more third-party applications on our open platform.

### **QQ.com**

QQ.com experienced solid year-on-year growth in traffic and users during the quarter. We are deepening QQ.com's integration with Tencent Microblog to strengthen the media influence of both services. We are also enhancing the breadth and depth of our content to better address the needs of different user groups.

### **IVAS**

Our community VAS products generally experienced user and revenue growth during the quarter. Qzone's active user accounts increased by 11.6% year-on-year to 536.9 million at the end of the third quarter. Because of the maturity of QQ Farm and QQ Ranch, active user growth at Qzone has reduced to rates broadly in line with those of our IM platform. Item sales grew as we offered more third-party applications on Qzone. Pengyou gained market share and increased its penetration in the white collar segment, as its active user accounts increased by 175.6% year-on-year to 149.4 million at the end of the third quarter. To further extend our open platform strategy, we have made a strategic investment in another social networking site, Kaixin001.

Growth momentum at Tencent Microblog continued, as registered user accounts increased sequentially by over 30%, to over 300 million at the end of the third quarter, and active usage climbed significantly. QQ Membership's subscription base expanded, assisted by enriched functionalities and cross-promotions with our online games. We are seeking to stimulate engagement at QQ Show via special items and promotions, and we are experiencing robust user growth at QQ Music.

Our online game business achieved significant increases in users and revenue across our major self-developed and licensed titles, assisted by school summer holiday seasonality. Among our advanced casual games, Cross Fire, QQ Dancer and QQ Speed experienced significant growth in users, and new title League of Legends entered its open beta testing period in September 2011, to a positive consumer response. Among our MMOGs, DnF substantially increased active users. Among our other game genres, QQ Game registered a 25.0% year-on-year increase in PCU to 8.0 million, and Roco Kingdom achieved a record-high PCU of 558,000.

### **MVAS**

Our MVAS revenue increased during the quarter, primarily driven by our bundled SMS packages, mobile games and mobile books. While the "cancellation before verification" policy introduced by China Mobile in early 2011 has dampened the growth of our MVAS business, mitigating measures that we have implemented are cushioning the impact of fraudulent users and improving our collection rate. We are actively positioning ourselves for the proliferation of the mobile Internet by extending our PC-based services to the mobile platform and developing new applications. For example, our Wireless QQ and Weixin services were consistently the most-downloaded social

applications in major application stores in China during the quarter. We are investing significantly in marketing our mobile applications to enhance market awareness and accelerate user growth.

### ***Online Advertising***

Our online advertising business generated significant revenue growth during the quarter, driven by display, video and search advertising. Our video advertising revenue almost doubled that for the previous quarter and our video service was ranked amongst the top five in China in terms of monthly unique visitors by third party data sources. Looking ahead, we are investing significantly in our video service's content offering. To increase our penetration amongst advertising clients in the fast moving consumer goods, finance and automobile sectors, we will enrich our portal content and enhance our marketing efforts. We are also refining our search engine algorithms and performance-based advertising technologies.

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## About Tencent

Tencent aims to enrich the interactive online experience of Internet users by providing a comprehensive range of Internet and wireless value-added services. Through its various online platforms, including Instant Messaging QQ, web portal QQ.com, the QQ Game platform under Tencent Games, multi-media social networking service Qzone and wireless portal, Tencent services the largest online community in China and fulfills the user's needs for communication, information, entertainment and e-Commerce on the Internet.

Tencent has three main streams of revenues: Internet value-added services, mobile and telecommunications value-added services and online advertising.

Shares of Tencent Holdings Limited are traded on the Main Board of the Stock Exchange of Hong Kong Limited, under stock code 00700. The Company became one of the 43 constituents of the Hang Seng Index (HSI) on June 10, 2008. For more information, please visit [www.tencent.com/ir](http://www.tencent.com/ir).

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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 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

In RMB '000 (unless otherwise stated)

	Unaudited		Unaudited	
	3Q2011	2Q2011	3Q2011	3Q2010
<b>Revenues</b>	<b>7,496,157</b>	<b>6,739,044</b>	<b>7,496,157</b>	<b>5,226,628</b>
Internet VAS	6,003,135	5,386,578	6,003,135	4,129,008
Mobile & Telecom VAS	844,900	793,839	844,900	695,057
Online advertising	600,572	512,312	600,572	382,542
Others	47,550	46,315	47,550	20,021
<b>Cost of revenues</b>	<b>(2,661,407)</b>	<b>(2,331,637)</b>	<b>(2,661,407)</b>	<b>(1,676,544)</b>
<b>Gross profit</b>	<b>4,834,750</b>	<b>4,407,407</b>	<b>4,834,750</b>	<b>3,550,084</b>
<i>Gross margin</i>	<b>64.5%</b>	<b>65.4%</b>	<b>64.5%</b>	<b>67.9%</b>
Interest income	124,159	106,546	124,159	65,259
Other gains, net	9,200	2,809	9,200	22,479
S&M expenses	(507,252)	(369,491)	(507,252)	(227,817)
G&A expenses	(1,469,278)	(1,363,372)	(1,469,278)	(744,092)
<b>Operating profit</b>	<b>2,991,579</b>	<b>2,783,899</b>	<b>2,991,579</b>	<b>2,665,913</b>
<i>Operating margin</i>	<b>39.9%</b>	<b>41.3%</b>	<b>39.9%</b>	<b>51.0%</b>
Finance income, net	43,097	1,771	43,097	3,431
Share of (losses)/profit of associates	(21,842)	23,454	(21,842)	10,985
Share of losses of jointly controlled entities	(59,926)	(60,689)	(59,926)	-
<b>Profit before income tax</b>	<b>2,952,908</b>	<b>2,748,435</b>	<b>2,952,908</b>	<b>2,680,329</b>
Income tax expense	(506,760)	(405,163)	(506,760)	(512,013)
<b>Profit for the period</b>	<b>2,446,148</b>	<b>2,343,272</b>	<b>2,446,148</b>	<b>2,168,316</b>
<i>Net margin</i>	<b>32.6%</b>	<b>34.8%</b>	<b>32.6%</b>	<b>41.5%</b>
<b>Attributable to:</b>				
Equity holders of the Company	2,446,437	2,349,246	2,446,437	2,153,111
Non-controlling interests	(289)	(5,974)	(289)	15,205
Non-GAAP profit attributable to equity holders of the Company	2,769,143	2,686,757	2,769,143	2,291,817
<b>Earnings per share (GAAP)</b>				
- basic (RMB)	1.340	1.289	1.340	1.185
- diluted (RMB)	1.314	1.260	1.314	1.159



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

In RMB '000 (unless otherwise stated)

	Unaudited		Unaudited	
	3Q2011	2Q2011	3Q2011	3Q2010
<b>Profit for the period</b>	<b>2,446,148</b>	<b>2,343,272</b>	<b>2,446,148</b>	<b>2,168,316</b>
<b>Other comprehensive income; net of tax:</b>				
Net (losses) /gains from changes in fair value of available-for-sale financial assets	(491,093)	264,280	(491,093)	-
Currency translation differences	(13,322)	(74)	(13,322)	-
<b>Total comprehensive income for the period</b>	<b>1,941,733</b>	<b>2,607,478</b>	<b>1,941,733</b>	<b>2,168,316</b>
<b>Attributable to:</b>				
Equity holders of the Company	1,942,022	2,613,452	1,942,022	2,153,111
Non-controlling interests	(289)	(5,974)	(289)	15,205



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB '000 (unless otherwise stated)

	Unaudited 30 September 2011	Unaudited 30 June 2011
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	5,491,024	4,665,626
Construction in progress	97,732	127,795
Investment properties	21,985	22,100
Land use rights	232,124	227,532
Intangible assets	3,311,099	3,480,998
Investment in associates	3,812,118	2,783,735
Investment in jointly controlled entities	116,381	10,556
Deferred income tax assets	180,289	197,573
Available-for-sale financial assets	4,644,548	4,655,567
Prepayments, deposits and other assets	2,375,624	1,988,322
	<u>20,282,924</u>	<u>18,159,804</u>
<b>Current assets</b>		
Accounts receivable	2,444,705	2,255,439
Prepayments, deposits and other assets	1,548,191	1,605,071
Term deposits with initial term of over three months	13,011,238	13,189,618
Restricted cash	4,496,249	3,877,183
Cash and cash equivalents	6,978,825	7,963,090
	<u>28,479,208</u>	<u>28,890,401</u>
<b>Total assets</b>	<u>48,762,132</u>	<u>47,050,205</u>
<b>EQUITY</b>		
<b>Equity attributable to the Company's equity holders</b>		
Share capital	198	198
Share premium	301,931	1,053,831
Shares held for share award scheme	(454,535)	(476,340)
Share-based compensation reserve	1,713,827	1,535,242
Other reserves	336,272	840,687
Retained earnings	24,612,992	22,166,555
	<u>26,510,685</u>	<u>25,120,173</u>
<b>Non-controlling interests</b>	<u>231,844</u>	<u>222,333</u>
<b>Total equity</b>	<u>26,742,529</u>	<u>25,342,506</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	966,329	945,833
Long-term payables	2,339,143	2,258,839
	<u>3,305,472</u>	<u>3,204,672</u>
<b>Current liabilities</b>		
Accounts payable	2,025,386	2,028,941
Other payables and accruals	3,815,837	3,637,803
Derivative financial instruments	31,639	33,900
Short-term borrowings	7,407,150	8,150,065
Current income tax liabilities	566,990	506,474
Other tax liabilities	239,630	245,962
Deferred revenue	4,627,499	3,899,882
	<u>18,714,131</u>	<u>18,503,027</u>
<b>Total liabilities</b>	<u>22,019,603</u>	<u>21,707,699</u>
<b>Total equity and liabilities</b>	<u>48,762,132</u>	<u>47,050,205</u>

## RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

<i>In RMB '000 except percentages</i>	As reported	Adjustments				Non-GAAP
		Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	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	
<b>Unaudited three months ended 30 September 2011</b>						
Operating profit	2,991,579	178,121	-	184,212	24,294	3,378,206
<i>Operating margin</i>	<i>39.9%</i>					<i>45.1%</i>
Profit for the period	2,446,148	178,121	-	131,211	24,294	2,779,774
<i>Net margin</i>	<i>32.6%</i>					<i>37.1%</i>
Profit attributable to equity holders of the Company	2,446,437	176,934	-	123,375	22,397	2,769,143
<b>Unaudited three months ended 30 June 2011</b>						
Operating profit	2,783,899	190,329	-	199,215	24,446	3,197,889
<i>Operating margin</i>	<i>41.3%</i>					<i>47.5%</i>
Profit for the period	2,343,272	190,329	-	136,440	24,446	2,694,487
<i>Net margin</i>	<i>34.8%</i>					<i>40.0%</i>
Profit attributable to equity holders of the Company	2,349,246	187,252	-	127,641	22,618	2,686,757
<b>Unaudited three months ended 30 September 2010</b>						
Operating profit	2,665,913	131,042	-	9,461	-	2,806,416
<i>Operating margin</i>	<i>51.0%</i>					<i>53.7%</i>
Profit for the period	2,168,316	131,042	-	7,743	-	2,307,101
<i>Net margin</i>	<i>41.5%</i>					<i>44.1%</i>
Profit attributable to equity holders of the Company	2,153,111	131,042	-	7,664	-	2,291,817