0700 HK gideon lens

Tencent Holdings (0700.HK) - Gideon-Lens Equity Research

Report ID: ER2-0700-HK-20260909-PULSE-CIO **Date:** 2026-09-09 **Analyst:** Codex / ER2 Production **Price:** HKD 434.00, XHKG settled close on 2026-09-09 **Market capitalization:** approximately HKD 3.98 trillion **Fiscal year end:** December 31 **Trade execution authorized:** NO

Verdict block

Verdict: PASS

Scorecard:

Gate	Result	Notes
Management	YELLOW	Strong stewardship, but VIE, incentives and AI-return discipline remain unresolved
Moat	YELLOW	Weixin graph is strong; the 2046 agent-interface test remains unresolved
P/E <= 15 on confident EPS at TTM + 5 calendar years	PASS	Base EPS HKD 46.0000 versus HKD 28.9333 required; 58.99% cushion
Compounder Score	Audited 62 / 100	Reject; evidence does not support dream-investment status; diagnostic only
Business Quality Score	Audited 56 / 80	Promising but incomplete quality evidence under the rubric
20% Return UW Score	Audited 6 / 20	Today's price does not support the 20% stretch objective

One-line thesis (or reason to pass): Tencent owns exceptional social, gaming, advertising and payments franchises, but two unresolved qualitative gates and a red-team-repaired 5.34% probability-weighted net-SGD return make the security non-actionable at HKD 434.

Security return underwriting (mandatory even when the verdict is PASS):

Measure	Result	Notes
Primary valuation method	P/E	One audited method across every scenario, probability weighting and net-SGD
Gross local-currency bear / base / bull IRR	-12.98% / 10.76% / 24.88%	Five-year annualized shareholder return in HKD
Probability-weighted gross local-currency IRR	5.98%	CAGR of expected terminal wealth using 40% / 50% / 10%
Return bridge	HKD 434.00 to terminal wealth	2031 EPS times 10x / 15x / 19x plus one counted dividend stream; no second cash/debt adjustment

The controlling method is P/E because statutory diluted EPS is reconciled to one XHKG:0700 ordinary listed unit in all three cases. EV/NOPAT is not eligible to control: terminal lease liabilities, the minority-interest carrying claim, other senior claims, and separately valued non-operating assets are not available as a complete double-count-safe bridge. P/B-ROE is not suitable because no parent-common-equity roll-forward was built. The P/E 15 quality gate did not choose the return multiples. VP separately challenged and locked 10x, 15x and 19x against normalized current P/E of 14.8225x and hash-bound historical and peer evidence.

Bear-case operating and return bridge

Bear case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	CNY 788.483B	CNY 857.196B	1.69%	Weak monetization and common-cause AI, policy and interface pressure

Bear case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Operating margin	32.79%	24.55%	-8.24 pp	Compliance, content and underused AI capacity do not flex
Operating earnings	CNY 258.543B	CNY 210.412B	-4.04%	Statutory operating income after corporate costs
Diluted share count	9,163.000M	8,917.856M	-0.54%	Lower buybacks partly offset equity-settled SBC
EPS	HKD 29.2798 normalized	HKD 19.2835	-8.01%	Scenario statutory diluted EPS per listed unit
Valuation	14.8225x normalized	10x	-4.8225x	Below recent history for regulatory and platform impairment
Share value	HKD 434.00	HKD 192.8345	-14.98%	EPS times locked Bear P/E
Annual dividend	HKD 5.30	HKD 5.00	-1.16%	Conservative funded distribution path
Dividend yield	1.22%	2.59%	+1.37 pp	Annual dividend divided by endpoint share value
Five-year dividends	-	HKD 23.75	cumulative	Counted once in terminal wealth
Total ending value	HKD 434.00	HKD 216.5845	-12.98% gross HKD IRR	Share value plus distributions

Base-case operating and return bridge

Base case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	CNY 788.483B	CNY 1,113.461B	7.15%	Games, Marketing and Business Services compound without heroic growth
Operating margin	32.79%	35.77%	+2.98 pp	Mix and platform leverage after a two-year AI-cost burden
Operating earnings	CNY 258.543B	CNY 398.291B	9.03%	Statutory operating income after separately modeled corporate costs
Diluted share count	9,163.000M	8,767.696M	-0.88%	Moderate repurchases exceed modeled SBC issuance
EPS	HKD 29.2798 normalized	HKD 46.0000	9.46%	Scenario statutory diluted EPS per listed unit
Valuation	14.8225x normalized	15x	+0.1775x	Near normalized current and below recent Tencent median
Share value	HKD 434.00	HKD 689.9996	9.72%	EPS times locked Base P/E
Annual dividend	HKD 5.30	HKD 7.7874	8.00%	Explicit five-year distribution path
Dividend yield	1.22%	1.13%	-0.09 pp	Annual dividend divided by endpoint share value
Five-year dividends	-	HKD 33.5804	cumulative	Counted once in terminal wealth
Total ending value	HKD 434.00	HKD 723.5800	10.76% gross HKD IRR	Share value plus distributions

Bull-case operating and return bridge

Bull case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	CNY 788.483B	CNY 1,295.146B	10.43%	Strong gaming, ad and cloud execution across all major engines
Operating margin	32.79%	41.61%	+8.82 pp	High-margin mix and AI-enabled scale after successful investment
Operating earnings	CNY 258.543B	CNY 538.942B	15.82%	Statutory operating income after corporate costs

Bull case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Diluted share count	9,163.000M	8,684.067M	-1.07%	Strong repurchase capacity exceeds SBC issuance
EPS	HKD 29.2798 normalized	HKD 67.3768	18.14%	Scenario statutory diluted EPS per listed unit
Valuation	14.8225x normalized	19x	+4.1775x	Inside recent Tencent observations under exceptional execution
Share value	HKD 434.00	HKD 1,280.1591	24.15%	EPS times locked Bull P/E
Annual dividend	HKD 5.30	HKD 9.3404	12.00%	Explicit five-year distribution path
Dividend yield	1.22%	0.73%	-0.49 pp	Annual dividend divided by endpoint share value
Five-year dividends	-	HKD 37.7105	cumulative	Counted once in terminal wealth
Total ending value	HKD 434.00	HKD 1,317.8696	24.88% gross HKD IRR	Share value plus distributions

Probability weighting is the five-year CAGR of HKD 580.210790 of expected terminal shareholder wealth, not an arithmetic average of scenario IRRs. Terminal diluted shares are 8,917.856M / 8,767.696M / 8,684.067M, and terminal equity values are HKD 1,719.671B / HKD 6,049.707B / HKD 11,116.988B. Because P/E is the locked equity method, cash, deposits, borrowings, leases, NCI and investments are not added or subtracted a second time after EPS times P/E. Interest, finance costs, investment income, associates/JVs, tax and NCI are already inside the statutory EPS numerator.

CIO actionability (separate from ER2 underwriting):

Measure	Result	Notes
Status	PASS	Two ER2 qualitative gates are YELLOW and probability-weighted returns are inadequate
Bear / Base / Bull net SGD IRR	-15.03% / 10.01% / 25.75%	0.701% starting friction, exit friction and scenario FX translation
Probability-weighted net SGD IRR	5.34%	CAGR of expected net terminal wealth using 40% / 50% / 10%
10% mandate hurdle	FAIL	Base narrowly clears, but probability-weighted return does not
15% stretch hurdle	FAIL	Only the 10%-probability Bull state clears
Downside and portfolio fit	UNAVAILABLE	Bear security downside is severe; current portfolio context was not supplied
Proposed sizing ceiling	none	Research-only PASS; owner approval would still be required

Trade execution authorized: NO

Time anchor and accounting basis

Tencent's fiscal year ends December 31. The latest complete period is H1/Q2 2026 ended 2026-06-30. TTM is FY2025 minus H1 2025 plus H1 2026, ending 2026-06-30. The forward horizon is exactly five calendar years to 2031-06-30. Official Tencent annual and interim reports control. The sealed statutory bridge uses four reportable revenue and Gross profit segments: Value Added Services, Marketing Services, FinTech and Business Services, and Others. Every FY and TTM reconciliation residual is zero.

TTM revenue was approximately CNY 788.5B, gross margin 56.66% and statutory operating margin 32.79%. VAS remains the largest and highest-margin engine. Marketing is the fastest monetization engine but disclosure of product dollars, ad load, eCPM and AIM+ uplift is limited. FinTech and Business Services combines a mature payments franchise with faster but opaque cloud and enterprise economics. Others is small and loss-making on the TTM anchor.

Management and moat

Management is YELLOW. Operating-margin repair, cash conversion and net share-count reduction show real stewardship, and Ma Huateng's 8.82% economic ownership provides alignment. Yet approximately 57% of FY2025 revenue was generated

through VIE operating companies; the board has limited independence; 2025 employee awards lacked explicit performance targets; and management has not published an AI return hurdle, utilization bridge or payback period. The upgrade conditions are proven AI returns, stronger independent oversight and performance-linked incentives.

Moat and the 2046 test are YELLOW. Weixin's combined social, identity, merchant and payment graph is the core advantage. Games add franchises, developer relationships and cross-title learning. Marketing benefits from closed-loop context, and FinTech benefits from trust and distribution. The weak points matter: automated bidding is replicable, cloud infrastructure is contestable, payment users can multi-home, and an external AI agent could own discovery and purchase intent while Tencent supplies lower-return rails. Others does not yet demonstrate a standalone profit pool. A PASS-grade moat requires proof that Tencent retains the customer interface and earns returns above the cost of capital through the agent transition.

Synthesis and valuation

The Base build reaches CNY 1,113.461B of revenue, CNY 398.291B of statutory operating income, CNY 345.037B of diluted ordinary-share earnings and HKD 46.0000 of EPS. Base EPS exceeds the HKD 28.9333 required at P/E 15 by 58.99%, so the valuation quality gate passes decisively. The binary gate does not rescue the verdict: under the exhaustive ER2 decision rule, two YELLOW qualitative gates require PASS even when valuation passes.

The score audit reduced the scorer's 68/100 to 62/100. Business Quality fell from 62/80 to 56/80 because segment gross margin is not product-level unit economics, market structure is mixed, disclosure gaps are material, AI reinvestment lacks a return framework, and buybacks lack a disclosed valuation hurdle. The 20% Return Underwriting score remained 6/20. At the locked Base EPS, a 20% return requires a 22.7468x exit P/E versus 14.8225x normalized current and 15x locked Base. The conditional Base maximum price for a 20% return is HKD 290.79, not a recommendation or trade level.

Red team and repaired probabilities

The first red-team pass found the original 30% / 50% / 20% weights materially optimistic. Moving only to 40% / 50% / 10% reduced gross probability-weighted return from 9.73% to 5.98% and net-SGD from 9.40% to 5.34%. S, VP, CS and CSA were rerun and re-hash-bound. The final objection status is MATERIAL_RESOLVED.

The important residual sensitivities are explicit. A 400bp Base terminal operating-margin miss lowers Base IRR from 10.76% to 8.51%. Eliminating Base buybacks while retaining SBC, and setting distributions to zero, lowers it to 8.15%. Combining that capital-return stress with the margin miss produces 5.84%. Re-underwriting Base/Bull exits at 13x/16x produces a 6.83% probability-weighted gross return on the earlier weight set and supports the conclusion that valuation quality is not the same as security actionability.

Kill and upgrade criteria

- Maintain PASS if two consecutive quarters show Marketing Services growth below 10%, gross margin below 55% in either quarter, and TTM FCF/NOPAT below 70%.
- Reassess the Base case if AI capex remains elevated without disclosed utilization or if terminal-margin evidence falls 400bp below the modeled path.
- Upgrade management only after measurable AI returns, stronger independent oversight and performance-linked employee awards.
- Upgrade moat only if Tencent demonstrably retains the agent-era customer interface and converts it into durable incremental returns.
- Reconsider actionability only when both Base and probability-weighted net-SGD IRRs exceed 10% with acceptable downside and current portfolio capacity.

Analyst flags

Tencent does not disclose segment operating income, product gross margins, cloud ARR/RPO, payment volume, Mini Shops GMV, ad-load economics, full product cohorts, acquisition returns, or an AI payback schedule. The TTM SBC burden available in the model is equity-settled SBC, not total share-based compensation. The complete historical ROIIC bridge is shorter and less comparable than a clean ten-year series. These gaps are reflected in the YELLOW gates, lower audited quality score, repaired probabilities and zero sizing. No ranking, message, funding, sale, portfolio mutation, order or trade is

authorized.

Tencent Holdings - Company Primer

Security: Tencent Holdings Limited ordinary shares, HKD counter, XHKG:0700 **Financial reporting basis:** IFRS; fiscal year ends 31 December **Reporting currency:** CNY; all monetary figures below are CNY millions unless stated otherwise **Information anchor:** FY2025 and trailing twelve months ended 30 June 2026 **Research scope:** Business orientation only. No trade, ranking, allocation, or sizing recommendation is made.

Source and interpretation note

Every financial figure in this primer comes from the QFR-cleared [quantitative foundation](C:/Users/Admin/OneDrive/GPT/ER%202.0/Tencent%20Holdings/quant_foundation.md), whose FY2025 and H1 2026 controlling sources are Tencent's official annual and interim reports. Tencent is a foreign local-exchange issuer and the official filings control where Financial Modeling Prep was empty or classified an item differently. In particular, both live FMP segment endpoints returned empty arrays; the foundation therefore uses Tencent's reconciled official segment tables, with zero residual to consolidated revenue and gross profit. The foundation also passed all eight reconciliation checks, including the statutory bridge from segment gross profit to operating profit and net income.

Business descriptions and strategic context are drawn from Tencent's [2025 Annual Report](https://static.www.tencent.com/uploads/2026/04/09/62d786fcf3d3c8cb7e54791ee95439ac.pdf), [2026 Interim Report](https://www.tencent.com/wp-content/uploads/2026/08/E700_IR.pdf), and [2026 second-quarter earnings release](https://www.tencent.com/wp-content/uploads/2026/08/Tencent-Announces-2026-Second-Quarter-Results.pdf), all retrieved live from Tencent Investor Relations for this run. Where management discusses AI, engagement, product leadership, or demand, those statements are treated as management evidence rather than independent proof.

1. Business overview

Tencent in one sentence

Tencent is a consumer-internet and enterprise-technology platform whose core asset is the Weixin/WeChat ecosystem, supplemented by global game studios, digital content, advertising technology, payments and financial distribution, and cloud infrastructure. It serves several customer groups at once: consumers use communication, entertainment, and transaction services; game players buy virtual content and subscriptions; advertisers pay for access to attention and measurable commercial outcomes; merchants and financial institutions pay transaction or service fees; and enterprises buy cloud capacity, software, and industry solutions.

That multi-sided structure matters. Tencent is not simply a social-media company, a game publisher, a payment processor, or a cloud vendor. It combines all four. Weixin is the connective layer: messaging and social interaction generate habitual traffic; Official Accounts, Mini Programs, Video Accounts, Mini Games, Mini Shops, search, payments, and advertising turn that traffic into services and commerce. Games and music add entertainment and paid-content economics. Weixin Pay and related financial services reduce transaction friction. Tencent Cloud supplies infrastructure and software both to outside customers and to Tencent's own products. The result is an ecosystem in which a user can communicate, consume content, play, shop, pay, and access services without repeatedly leaving the platform.

Consumer products and the problem they solve

For consumers, Weixin and WeChat solve the problem of fragmented digital activity. Their starting point is communication, but the product surface extends to social feeds, video, search, commerce, payments, games, music, and access to third-party services through Mini Programs. QQ remains a communication and content community, particularly relevant to younger users and selected interest groups. Tencent Video, Tencent Music-related services, live streaming, and other social-network products offer entertainment and subscription or virtual-item benefits. Users generally acquire these services through app stores or direct downloads and use most basic functions without paying. Monetisation occurs when a user purchases a subscription, buys virtual items, pays for content, or engages in a transaction that generates a merchant or financial-service fee.

This free-entry, paid-upgrade model changes the commercial logic. Tencent does not need a conventional sales force to acquire each consumer. Distribution is predominantly self-serve and embedded in products with large installed user bases. The economic task is to sustain engagement, introduce useful paid features without damaging the experience, and retain enough control of distribution and discovery that successful products can scale efficiently. The risk is the reverse: if attention shifts, regulation restricts monetisation, or product quality weakens, the same operating leverage can work against the

company.

Games and digital entertainment

Tencent develops, publishes, and operates games through internal studios and controlled or affiliated global studios. The portfolio includes long-lived domestic franchises, newer releases, international titles, and mobile and PC games. A game solves an entertainment and social-coordination need; customers buy access to in-game experiences, virtual items, or time-limited benefits. Tencent distributes directly through its own channels and through third-party app stores and platforms. Those platforms may collect customer payments and retain predetermined distribution fees. For third-party games, Tencent may share user receipts with developers. Accounting is therefore sensitive to whether Tencent acts as principal or agent.

The company distinguishes between internally developed games and licensed or third-party content because the economics differ. An internally developed title can retain more of the revenue after app-store and operating costs, but requires upfront development expense and carries hit risk. A licensed title can reduce development risk but transfers part of the economics to the intellectual-property owner or studio. A durable franchise has attractive incremental economics because content, live operations, and user-acquisition spending can support a large existing player base. A new title is less predictable: marketing and development cash are committed before long-term retention and monetisation are known.

The 2025 business review identified Delta Force, Honour of Kings, Peacekeeper Elite, the VALORANT franchise, Supercell titles, PUBG MOBILE, and Wuthering Waves as important contributors. In the second quarter of 2026, management highlighted further contributions from Delta Force, VALORANT PC and MOBILE, Roco Kingdom: World, and Wuthering Waves. These titles illustrate the portfolio approach: combine evergreen games with a pipeline of new content, distribute across domestic and international markets, and use live operations to extend useful life.

Advertising and merchant demand generation

Marketing Services connects advertisers with consumer attention across Weixin and Tencent's other properties. The product is not merely a banner-placement business. Tencent sells display inventory and performance-based outcomes such as impressions, views, or clicks, while recommendation systems choose which advertisement to show. Advertisers can purchase directly or through agencies and increasingly use automated campaign tools. Tencent's AIM+ system is designed to manage campaigns end to end, and “closed-loop” formats allow an advertisement to lead directly into a Mini Program, Mini Shop, or Mini Game within the Weixin ecosystem.

The customer problem is measurable demand generation. An advertiser wants a relevant consumer, a predictable acquisition cost, and a short path from impression to transaction. Tencent's potential advantage is first-party interaction data, large native inventories, and a transaction environment that can measure downstream behaviour. The commercial model can improve through either volume-more user time, inventory, or ad load-or yield-better targeting, conversion, and pricing. The 2025 and H1 2026 filings attribute recent growth primarily to AI-enhanced recommendation, automated buying, closed-loop marketing, greater engagement in Video Accounts and Weixin Search, and broad advertiser demand. These are company claims, but they define the operating mechanism investors should test.

Payments, financial distribution, and enterprise services

FinTech services sit behind everyday commerce. Tencent earns commissions on payment transactions, wealth-management distribution, consumer-loan services, and other financial activity, normally as a percentage of transaction value or a periodic retained balance. Tencent generally partners with licensed financial institutions rather than presenting itself as the ultimate balance-sheet provider of every financial product. Consumers and merchants access these services inside Weixin; revenue is recognised when the relevant service is rendered.

Business Services includes Tencent Cloud and related enterprise software or technology services. Cloud customers buy subscriptions for a period or pay according to resource consumption. The offering addresses computing, storage, databases, media, security, artificial intelligence, and industry-specific digital workloads. Sales can involve direct enterprise relationships, partners, and longer procurement cycles than consumer products. The 2025 annual report described domestic and international cloud demand, AI-related services, and e-commerce technology fees linked to Mini Shops as growth drivers. The H1 2026 report added greater AI-service demand, international expansion, and a more favourable pricing environment.

AI as a shared investment layer

Tencent's current strategy is to use AI at three levels. First, models and recommendation systems are intended to improve existing economics in advertising, content discovery, games, cloud, and customer service. Second, AI-native applications-such as Hy-family models, Yuanbao, WorkBuddy, CodeBuddy, and the Xiaowei concept inside Weixin-may

create new usage and paid products. Third, expanded compute infrastructure supports model training, inference, internal applications, and external cloud demand.

This distinction is crucial. AI is already influencing the existing revenue architecture through ad targeting, game engagement, and cloud workloads, but the new-product layer is still investment-heavy. Management stated in the second-quarter release that it had stepped up compute procurement and that New AI Products were depressing current profitability. The quantitative foundation shows the resulting capital intensity: issuer-defined capital expenditures were 79,198 in FY2025, 84,720 in H1 2026 alone, and 117,335 on the TTM bridge. The strategic question is not simply whether Tencent has an AI model. It is whether model quality, product distribution, willingness to pay, and infrastructure utilisation jointly produce returns above the higher depreciation and operating-cost base.

Corporate perimeter and economic ownership

Tencent Holdings Limited is incorporated in the Cayman Islands, listed in Hong Kong, and operates mainly in Chinese Mainland. The group also owns subsidiaries and interests in associates, joint ventures, and listed and unlisted investees across multiple territories. That portfolio can be strategically useful, but it complicates analysis. Consolidated operating profit reflects controlled businesses; the share of associates and joint ventures is below operating profit; investment gains and fair-value movements can make reported net income more volatile; and non-controlling interests mean not every yuan of subsidiary profit belongs to ordinary shareholders.

2. Revenue architecture

FY2025 segment map

Tencent reports four operating segments. The chief operating decision-makers assess them principally on revenue and gross profit, not segment operating income. Selling and marketing, general and administrative expenses, interest income, finance costs, investment gains, associate results, and tax are managed centrally and are not allocated to segments. There were no material inter-segment sales, so segment revenue sums directly to consolidated revenue.

FY2025 segment	Revenue	Share of total	Gross profit	Gross margin
Value Added Services	369,281	49.1%	222,296	60.20%
Marketing Services	144,973	19.3%	83,389	57.52%
FinTech and Business Services	229,435	30.5%	116,616	50.83%
Others	8,077	1.1%	292	3.62%
Tencent total	**751,766**	**100.0%**	**422,593**	**56.21%**

Value Added Services

VAS comprises Games and Social Networks. FY2025 Games revenue was 241,532 and Social Networks revenue was 127,749; together they reconcile exactly to VAS revenue of 369,281. Games revenue comes mainly from virtual items and related services. Social Networks includes subscriptions, virtual items, live-streaming and music-related services, and app-based game revenue associated with social products.

The segment is best understood as a portfolio of digital goods and memberships rather than one subscription stream. Permanent virtual items are generally deferred and amortised over the estimated user life of the game because Tencent must continue maintaining access. Limited-life items and subscriptions are recognised over consumption or the service period. This creates deferred revenue and smooths some cash receipts over service periods, but it also makes user-life assumptions important. The segment's customer acquisition is largely product-led and self-serve, while third-party distribution and developer shares affect how much gross revenue Tencent retains.

VAS grew strongly in FY2025, with the official business review attributing the advance to domestic evergreen titles, newer releases, international games, Video Accounts live streaming, music subscriptions, and virtual-item sales. By H1 2026, total VAS revenue was 194,524. In the second quarter, Games within VAS contributed 65,951 and Social Networks 32,463, for VAS revenue of 98,414. The mix demonstrates why investors should separate game release cadence from the steadier social and subscription layer even though both sit inside one reportable segment.

Marketing Services

Marketing Services consists mainly of advertising inventory across Tencent platforms. Revenue is recognised over the agreed display period or when a performance event-such as an impression, view, or click-occurs. The segment generated 144,973 in FY2025 and 159,094 on the TTM ended 30 June 2026. Its architecture has three primary levers: user attention creates inventory, the recommendation and campaign system converts inventory into advertiser outcomes, and closed-loop destinations improve measurement and conversion.

The quality of revenue depends on more than ad load. More impressions can increase sales but may damage user experience. Better recommendation and richer first-party signals can raise the price per impression without the same increase in ad density. Native transaction paths can also improve advertiser returns by reducing friction between discovery and purchase. In 2025 management cited both pricing and impression growth, while H1 2026 commentary emphasised AI-driven recommendation, AIM+, and Weixin-integrated closed-loop marketing. A primer reader should therefore view the ad business as software-enhanced monetisation of ecosystem attention, with privacy, regulation, consumer experience, and algorithmic effectiveness as key constraints.

FinTech and Business Services

This segment generated 229,435 in FY2025 and 239,163 on the latest TTM. FinTech includes payment commissions, wealth-management services, consumer-loan services, and related activity. Business Services includes cloud subscriptions, consumption-based cloud resources, software, e-commerce technology fees, and other enterprise solutions. The two businesses share enterprise and merchant relationships but have different economic drivers.

Payments are fundamentally volume and take-rate businesses: revenue depends on transaction activity, product mix, and the fee retained after partner and processing costs. Wealth and lending distribution depend on user trust, financial-institution partnerships, risk controls, and regulation. Cloud is a utilisation and scale business: customers pay for capacity or software, while Tencent bears infrastructure, depreciation, bandwidth, energy, and technical-support costs. Higher-value platform and software services can improve mix, but basic infrastructure can be competitive and capital-intensive.

Bundling FinTech and cloud obscures some detail because Tencent does not publish a full subsegment profit split. The segment-level gross margin is nevertheless useful. It increased from the FY2024 level cited in the annual report to 50.83% in FY2025 and stood at 51.29% on the TTM bridge. Management attributes the improvement to scale in cloud, better FinTech mix, and cost efficiency. The operating diligence question is whether that progress persists as AI compute spending rises and as payment and financial-service regulation evolves.

Others

Others includes investment in, production and distribution of films and television programmes for third parties, copyright licensing, merchandise, and other activities. It contributed only 8,077 in FY2025. The segment produced 292 of gross profit in that year, but its TTM gross profit was negative 2,164 on revenue of 9,922. It should not be confused with Tencent's investment portfolio: gains and losses on investees sit outside segment gross profit in the statutory income statement.

Others is strategically adjacent to Tencent's content and intellectual-property ecosystem, but its disclosed economics are weak and volatile. Film and television production can require upfront content spending, revenues can be title-dependent, and merchandising has physical fulfilment costs absent from digital goods. Given its small scale, the segment is unlikely to determine the group thesis alone, yet persistent losses would consume some of the economics created elsewhere.

Geographic concentration

Tencent is legally domiciled in the Cayman Islands but earns most revenue in Chinese Mainland. The FY2025 annual report's geographic table, reproduced through the controlling official foundation, shows the concentration clearly.

FY2025 geography	Revenue	Share of total
Chinese Mainland	662,119	88.1%
Other regions	89,647	11.9%
Total	**751,766**	**100.0%**

The “Other regions” line does not equal international games alone: it reflects the geographic location assigned under the group's reporting policy across relevant activities. Even so, the table establishes that Tencent remains predominantly exposed to Chinese consumer demand, regulation, payments, advertising, and digital-services conditions. International games and cloud can diversify growth, but they do not yet change the consolidated geographic centre of gravity.

Latest mix and direction of travel

The TTM bridge is FY2025 less H1 2025 plus H1 2026; no quarters overlap. It shows a group growing beyond the FY2025 base while preserving an attractive consolidated gross margin.

TTM ended 30 June 2026	Revenue	Share of total	Gross profit	Gross margin
Value Added Services	380,304	48.2%	235,215	61.85%
Marketing Services	159,094	20.2%	91,069	57.24%
FinTech and Business Services	239,163	30.3%	122,665	51.29%
Others	9,922	1.3%	(2,164)	(21.81%)
Tencent total	**788,483**	**100.0%**	**446,785**	**56.66%**

3. Unit economics

The correct accounting lens

Tencent discloses segment revenue, directly attributable cost of revenue, and segment gross profit. It does not disclose segment operating income. This is more than a presentation detail: any attempt to assign central R&D, marketing, headquarters, investment gains, finance costs, or tax to individual segments would be analyst-created rather than issuer-reported. The correct unit-economics analysis begins with segment gross margin and then applies the consolidated central-cost bridge.

For TTM ended 30 June 2026, gross profit of 446,785 was reduced by selling and marketing expense of 47,663 and G&A of 143,150, then increased by net other gains of 2,571, producing operating profit of 258,543. That is an operating margin of approximately 32.8%. Below operating profit, investment gains and other items, interest income, finance costs, and results of associates and joint ventures led to pretax profit of 290,071. After income tax of 48,670, group profit was 241,401; after 5,893 attributable to non-controlling interests, parent profit was 235,508.

TTM statutory bridge	Amount	Economic meaning
Revenue	788,483	Customer consideration recognised across all segments
Cost of revenue	(341,698)	Direct content, distribution, infrastructure, processing, and service costs
Gross profit	446,785	Segment economics before central operating costs
Selling and marketing	(47,663)	User acquisition, product promotion, games, and AI-native product adoption
General and administrative	(143,150)	R&D, staff, depreciation, and corporate costs
Other gains, net	2,571	Statutory operating bridge item
Operating profit	**258,543**	**Profit from consolidated operations**
Pretax profit	290,071	Includes investing, interest, finance, and associate results
Parent profit	235,508	Profit attributable to ordinary shareholders before EPS dilution mechanics

VAS unit economics

A yuan of VAS revenue begins as a user's purchase of a virtual item, subscription, or digital service. The main direct deductions are channel and app-store fees, developer or intellectual-property revenue shares, content costs, server and bandwidth costs, customer support, and amortisation of acquired or developed content-related intangibles. For internally developed games, Tencent retains more gross economics but bears development and live-operations expense. For licensed games and third-party applications, revenue share reduces the retained amount but may reduce creative-development risk.

The FY2025 VAS gross margin was 60.20%, and the TTM margin was 61.85%. That expansion is consistent with a greater contribution from high-margin internally developed games and successful evergreen titles, as management states. The attractive feature is low marginal distribution cost once a game or social product has scale. The limiting factors are not physical production but content quality, developer economics, platform commissions, user acquisition, server costs, regulatory approvals, and the need for continuous updates.

Revenue recognition also affects the timing of reported economics. Cash received for permanent virtual items can be deferred and recognised over expected user life; limited-life items and subscriptions are recognised over consumption or the service period. Deferred revenue was substantial at group level, reflecting prepaid virtual items, subscriptions, tokens or cards, loyalty incentives, and other future obligations. Investors should distinguish bookings and cash receipts from recognised revenue and should monitor whether stronger deferred balances represent healthy demand or lengthening fulfilment obligations.

Marketing Services unit economics

A yuan of advertising revenue is generated when Tencent supplies an agreed display period or a measurable event such as an impression, view, or click. Direct costs include traffic acquisition or partner sharing where applicable, content and platform operation, sales delivery, bandwidth and compute, depreciation, and the infrastructure supporting recommendation systems. Unlike physical media, inventory can be created by incremental engagement, but it is not costless: richer video formats and AI inference consume compute, and excessive ad load can reduce the user experience that creates the inventory.

The FY2025 Marketing Services gross margin was 57.52%; the TTM margin was 57.24%. The slight difference matters because management simultaneously reports strong AI-assisted revenue growth and higher depreciation and operating costs associated with expanded AI infrastructure. Better targeting can improve conversion and price, while automated campaign management can lower advertiser friction and internal service cost. Closed-loop commerce can improve attribution because the path from ad to Mini Shop or Mini Program remains within Tencent's environment. The economic test is whether these yield gains exceed compute, depreciation, content, and sales costs without relying on user-hostile increases in ad load.

The segment also benefits from cross-sell. A merchant already using Mini Shops, payments, or other Weixin tools can buy ads to drive traffic inside the same ecosystem. That can reduce integration complexity and improve measurement. However, this advantage depends on continued merchant adoption, reliable attribution, data governance, and competitive advertiser returns. Advertising budgets are discretionary and can move quickly when industries slow or another platform offers better conversion.

FinTech and Business Services unit economics

FinTech economics begin with gross transaction value, assets distributed, or other service activity, but Tencent recognises the commission it earns rather than the customer's full economic value. Direct costs include payment-network and bank fees, risk management, customer incentives, compliance, fraud prevention, technical operations, and partner sharing. Payment scale can lower unit processing cost, while product mix matters because wealth-management and consumer-loan distribution may carry different margins from commercial payments. Regulation can constrain take rates, product availability, risk-sharing, and marketing practices.

Cloud economics are more capital-intensive. Revenue is earned ratably for subscriptions or as customers consume compute resources. Direct costs include servers and accelerators, data-centre capacity, depreciation, energy, bandwidth, software, technical support, and third-party components. Utilisation is central: the same infrastructure produces much better returns when capacity is well used. Platform and software services can carry better margins than undifferentiated infrastructure, while AI training and inference may require expensive accelerators and prepayments before revenue arrives.

The combined segment's FY2025 gross margin was 50.83%, rising to 51.29% on the TTM bridge. Management links improvement to cloud scale, a better FinTech revenue mix, and cost efficiency. Yet the disclosed segment blends payments and cloud, so investors cannot directly observe whether one sub-business subsidises another. H1 2026 capex and central AI spending also caution against extrapolating segment gross margin alone into group free cash flow.

Others unit economics

Others has structurally different economics: film and television production, licensing, and merchandise require content investment, rights management, production timing, and sometimes physical fulfilment. Revenue can be episodic and tied to a small number of releases. In FY2025 the segment's 3.62% gross margin was already thin; on the latest TTM it recorded a gross loss of 2,164. That suggests the group is currently spending more directly on these activities than it recognises in revenue. Because the segment is small, it does not overwhelm group profitability, but it is a useful reminder that not all Tencent ecosystem extensions inherit software-like margins.

Central costs and operating leverage

Selling and marketing and G&A are centrally managed because Tencent's businesses share products, infrastructure, data, research, distribution, and corporate resources. FY2025 selling and marketing was 41,727 and G&A was 136,127. On the TTM bridge these reached 47,663 and 143,150. Management attributes the increases partly to promotion of games and

AI-native products, higher R&D spending, AI model development, Weixin AI initiatives, staff costs, and depreciation from infrastructure investment.

Cash conversion and capital intensity

Tencent remains highly cash generative, but the current AI build-out has changed the near-term cash profile. TTM operating cash flow was 305,848. Issuer-defined capital expenditures were 117,335, leaving free cash flow of 188,513 under the foundation's consistent OCF-minus-capex definition. That free-cash-flow margin was approximately 23.9%, below the parent-profit margin, as infrastructure investment accelerated. Equity-settled share-based compensation was 23,309 on the TTM, so cash flow should not be interpreted without considering dilution and employee-compensation economics.

Cash and capital metric	FY2025	TTM ended 30 June 2026
Operating cash flow	303,052	305,848
Issuer-defined capital expenditures	79,198	117,335
Free cash flow	223,854	188,513
Equity-settled share-based compensation	25,660	23,309
Repurchase cash	73,312	61,044
Shareholder dividends	37,535	41,595

The capex perimeter is important. Tencent defines it mainly as spending on IT infrastructure, data centres, land and premises, software, and intellectual property, excluding media content. The foundation does not mix that series with the broader cash purchases and prepayments for property, equipment, construction, and intangibles. This consistency prevents a false improvement or deterioration caused solely by changing definitions.

At 30 June 2026, Tencent held 206,930 of cash and equivalents, 266,999 of current and non-current term deposits, and 7,729 of restricted cash. Borrowings and notes totalled 452,963, lease liabilities were 18,865, and issuer-defined net cash was 58,191. The balance sheet therefore provides funding capacity, but the decline in net cash from FY2025 coincides with heavier compute procurement and capital return. Parent equity was 1,135,853.

What an institutional reader should monitor

The unit-economics dashboard is compact. For VAS, watch the mix of internally developed versus licensed games, player retention, release cadence, distribution shares, and the relationship between cash bookings and deferred revenue. For Marketing Services, watch price versus impression growth, advertiser return on spend, AI inference cost, ad load, and whether closed-loop formats expand without degrading user experience. For FinTech and Business Services, watch payment activity, take-rate and regulatory constraints, cloud growth, AI-service demand, infrastructure utilisation, and segment gross margin. For Others, watch whether TTM gross losses persist.

At group level, the decisive bridge is gross-profit growth versus central R&D, marketing, depreciation, and capex. AI investment must raise durable revenue and infrastructure utilisation enough to preserve operating profit and free cash flow after the full cost burden. The core analytical discipline is to keep the layers separate: segment gross profit explains the engines; central expenses explain the shared platform; below-line items explain investment and ownership effects; and cash flow tests whether accounting profit survives the infrastructure cycle.

Tencent Holdings - Management Assessment

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Executive assessment

Tencent is still run by the founder-led partnership that built its core franchises, and the operating record since the 2022 regulatory and macro shock is unusually strong. Management accepted lower-quality activities were not earning their keep, withdrew from them, restored group operating margin, improved FinTech and Business Services economics, and returned substantial capital while keeping the diluted share count falling. The team is also candid about which AI use cases already make money and which are long-cycle bets. Those facts argue against a FAIL.

The governance and incentive package does not yet earn a clean PASS. Ma Huateng combines chair and CEO, there is no disclosed lead independent director, two of the five nominally independent directors have served since 2004, and two non-independent directors are affiliated with the 22.8% Prosus/Naspers shareholder. More importantly, operating companies subject to contractual arrangements generated approximately CNY430 billion, or 57% of FY2025 group revenue, while their registered equity is held principally by Ma and other founders. The contracts transferred surplus cash to Tencent's wholly foreign-owned entities and were reviewed by the independent directors and auditor, but direct ownership and enforceability are not equivalent. Employee awards also lacked performance targets in 2025. Founder ownership and disciplined per-share outcomes offset, but do not erase, these minority-shareholder risks. **Management gate: YELLOW.**

1. Who is running the company

Ma Huateng (Pony Ma), 54, is founder, chairman and chief executive officer. Tencent records him as employed by the group since 1999; he owns strategic positioning and overall management. His current service contract runs from 1 January 2025 through 31 December 2027. The most consequential decisions remain his: the Weixin ecosystem architecture, the post-2022 shift to higher-quality revenue, the balance between repurchases and reinvestment, and the current AI infrastructure and product build.

Martin Lau Chi Ping, president since 2006, joined in 2005 as chief strategy and investment officer after Goldman Sachs and McKinsey. He manages day-to-day operations and remains a central voice on strategy, regulation and capital deployment. John Shek Hon Lo, CFO since May 2012 and with Tencent since 2004, previously worked at PwC. His tenure spans the entire recent capital-return programme, although M&A and investment responsibility is shared with Lau and chief strategy officer James Mitchell.

The operating bench is deep and long-tenured. Ren Yuxin, with Tencent since 2000, is COO and heads the Platform & Content and Interactive Entertainment groups. Zhang Xiaolong, with Tencent since 2005, has led Weixin Group since 2014. Dowson Tong, with Tencent since 2005, heads Cloud and Smart Industries and the Yuanbao/IMA AI products. Lu Shan, with Tencent since 2000, heads Technology and Engineering. James Mitchell, with Tencent since 2011, owns strategic planning, investor relations, M&A and investments. Ma Xiaoyi leads international games; Lin Ching-Hua leads advertising and smart retail.

The eight-member board has one executive director (Ma), two non-executive directors (Koos Bekker and Charles Searle, both tied to Naspers/Prosus), and five directors classified as independent. Audit is chaired by former PwC China/Hong Kong chair Yang Siu Shun; remuneration by Ian Stone; corporate governance by Searle; nomination by Ma. There is no disclosed lead independent director. The numeric 5/8 independence majority is therefore less persuasive than it looks: Stone and Li Dong Sheng have served since April 2004, Searle since 2001, and the chair/CEO combination is an admitted deviation from Hong Kong's governance code. No single independent director is clearly accountable for challenging Ma.

2. Tenure and track record

Ma and Lau have been in-seat long enough to own both the successful strategy and its mistakes. Three decisions define the last cycle.

First, management's 2022 reset toward “high-quality revenue” was economically effective. Revenue fell slightly to CNY554.6 billion in FY2022 and operating margin bottomed at 19.99%. By FY2025, revenue had recovered to CNY751.8 billion, operating margin to 32.13%, diagnostic ROIC to 18.9% from 12.1%, and ER2 mechanical free cash flow to CNY223.9 billion from CNY128.1 billion. The cloud team explicitly said it had “debugged” the business by scaling back or exiting low-margin, low-value activities. FinTech and Business Services gross margin then rose from 32.97% in FY2022 to 50.83% in FY2025.

That is a measured pivot with visible results, not a quiet write-off.

Second, management monetised Weixin and its advertising technology without racing immediately to peer ad loads. Marketing Services revenue rose from CNY82.7 billion in FY2022 to CNY145.0 billion in FY2025, while gross margin expanded from 42.32% to 57.52%. On the Q2 2025 call, Mitchell broke 20% advertising growth into a majority contribution from higher revenue per impression, principally AI-improved click-through, a smaller contribution from traffic, and almost none from ad load; he also disclosed Video Accounts ad load in the low-to-mid single digits versus peers in the low-to-mid teens. This is unusually useful operating disclosure and supports the claim that returns came from product and targeting quality rather than brute-force inventory.

Third, Tencent combined aggressive repurchases with a new AI investment cycle. Cash-flow-statement repurchases increased from CNY2.2 billion in FY2021 to CNY29.3 billion in FY2022, CNY43.8 billion in FY2023, CNY102.3 billion in FY2024 and CNY73.3 billion in FY2025. Diluted weighted shares fell from 9,696 million to 9,244 million over that span despite employee equity issuance. But issuer-defined capex also jumped from CNY23.9 billion in FY2023 to CNY76.8 billion in FY2024 and CNY79.2 billion in FY2025; H1 2026 alone reached CNY84.7 billion. Q2 2026 capex of CNY52.8 billion contributed to negative CNY13.8 billion reported free cash flow. Management's current choice to divert cash from buybacks toward AI therefore has not yet earned an ex-post return verdict.

M&A is mixed rather than disqualifying. Net acquisition cash was CNY67.0 billion in FY2021, only CNY1.2-8.9 billion annually in FY2022-24, and CNY34.7 billion in FY2025. Tencent continues to buy or back game studios and completed Ximalaya in May 2026 to connect audio books and podcasts with Tencent Music and China Literature. International-games growth and stronger franchise breadth are encouraging, but Tencent does not disclose deal-level invested capital or post-acquisition ROIC, and Ximalaya is too recent to judge. The earlier cloud retrenchment is the clearest failed initiative: management acknowledged and corrected it, but investors still lack a quantified loss or return ledger.

3. Capital allocation behaviour

Five-year deployment is coherent with management's stated priorities. R&D increased from CNY51.9 billion in FY2021 to CNY85.7 billion in FY2025, remaining around 9.3-11.4% of revenue. Dividends rose from CNY12.5 billion to CNY37.5 billion, and the proposed FY2025 final dividend increased to HKD5.30 per share from HKD4.50. Capex and acquisition spending fell when the group was resetting in 2022-23, then reaccelerated with AI and selective content/assets.

Repurchases have been economically meaningful and more than offset dilution, which is the right per-share test. The pace was also not purely mechanical: FY2024 repurchase cash was almost five times FY2021's amount and FY2025 market purchases totalled 153.4 million shares for HKD80.0 billion. Yet management publishes no explicit valuation hurdle or average repurchase multiple. In Q2 2026 it described capital allocation as “dynamic,” meaning compute demand can crowd out repurchases. This is rational flexibility, but it leaves the investor to infer price sensitivity.

The AI programme is consistent with the strategy and deserves neither automatic praise nor automatic condemnation. Management has identified monetised uses in ad targeting, content recommendation, games and cloud, and it says compute could be rented externally at cost recovery or better. However, the claim that internal models and applications will produce superior long-term returns is not supported by a payback period, incremental revenue bridge or ROIC threshold. The decision is large enough that a clean management PASS should wait for evidence that AI-native spending creates value rather than merely protecting relevance.

4. Compensation alignment

Ma's real alignment is ownership, not annual pay. At 31 December 2025, his wholly owned vehicles held 804.86 million ordinary shares, 8.82% of Tencent. His FY2025 remuneration was CNY48.5 million-CNY7.6 million salary, CNY39.4 million bonus and no share-based compensation. A one-percentage-point move in Tencent's equity value matters vastly more to him than annual cash compensation.

Senior-management pay excluding Ma was CNY4.46 billion in FY2025, of which CNY3.92 billion was share-based expense. That is long-duration in form, but weakly specified in performance terms. Tencent granted 43.86 million awards in 2025; the annual report states all 2025 award grants were made without performance targets. Vesting can extend to seven years and awards lapse or may be clawed back for dishonesty, serious misconduct, negligence, criminal integrity offences or conduct prejudicing the group. This is a conduct clawback, not a financial-performance clawback. The report does not disclose a broad personal hedging prohibition, executive holding requirement or ROIC/FCF condition.

Group share-based compensation was CNY22.2 billion, CNY26.2 billion, CNY22.8 billion, CNY23.4 billion and CNY31.9 billion in FY2021-25, equivalent to approximately 3.97%, 4.73%, 3.74%, 3.55% and 4.24% of revenue. FY2025 included a CNY4 billion one-off at an overseas subsidiary. This is material but not chronic dilution abuse: diluted shares declined 4.7% over five years because repurchases exceeded issuance. Still, time-based discretionary awards without disclosed operating targets are inferior to a transparent multi-year ROIC/FCF scorecard.

5. Disclosure quality and candor

The eight-quarter window is Q3 2024 through Q2 2026. Seven live FMP transcripts were available; FY2025 Q4 returned an empty array, so the official FY2025 release and presentation supply prepared statements but no question handling. That missing call is treated as unscored, not invented.

Period	Load-bearing issue tested	Assessment
Q3 2024	Games concentration, e-commerce and weak consumption	Direct strategic explanation; acknowledged policy timing was uncertain and payments growth had slowed before October.
Q4 2024	AI capex versus margin	Direct on depreciation mechanics and use cases, but no quantified payback or return hurdle.
Q1 2025	Agent monetisation, Mini Shops, payment softness	Detailed product answer; disclosed payment volume was choppy and slightly down YoY, but monetisation remained qualitative.
Q2 2025	Advertising drivers and ad load	Best-in-window answer: quantified driver mix and disclosed relative ad load.
Q3 2025	AI competitiveness and margin	Candid that China models were in a close race and warned against quarter-to-quarter margin extrapolation; absolute model economics remained undisclosed.
Q4 2025	Full-year AI investment and core returns	Prepared disclosure only; no live Q&A transcript available.
Q1 2026	Hunyuan adoption and AI disruption	Disclosed at least 10x token use versus Hunyuan 2 and said disruption was too dynamic for definitive prediction.
Q2 2026	CNY52.8B capex, D&A and payback	Answered the question and separated core from AI-native economics, but substituted rental downside protection and long-term conviction for a numeric internal return.

Question handling is generally above peer average: executives correct premises, separate price/volume/mix, and name weak areas. They explicitly called consumption improvement “nascent,” payment volume “choppy,” and cloud's earlier activities low-value. They also name DeepSeek, ByteDance-like ad-load comparisons and supply constraints rather than pretending the market is uncontested.

The limitation is guidance discipline. Tencent does not provide conventional quarterly revenue, EPS, capex or margin guidance, so a beat/meet/miss score cannot be calculated. Directional statements-such as Q1 2025's warning that AI costs would temporarily narrow the gap between revenue and operating-profit growth-have generally matched the subsequent step-up in depreciation and capex. But investors cannot audit “prepared raises” versus “scrambling surprises” when management declines to set numerical ranges. All seven observable calls used explicit qualifiers such as uncertain, gradual, choppy, nascent, difficult to forecast or not to extrapolate; FY2025 Q4 is unscorable. That is prudent in volatile businesses, but it also gives management a wide goalpost.

Voluntary disclosure is strongest on engagement and operating drivers and weakest on financial units. Tencent provides Weixin/WeChat MAU, video views/time growth, search queries, AI adoption indicators and selected ad-load facts. It does not disclose payment volume, Mini Shops GMV, cloud ARR/RPO, AI-native revenue, segment operating profit or product-level capital returns. Candor is good; completeness is only moderate.

6. Strategic coherence

Tencent's stated purpose remains “Value for Users, Tech for Good.” The more investable operating formulation is now two-track: use AI to strengthen high-return Weixin, games, advertising and cloud franchises, while building AI-native models, agents and applications. R&D, GPU procurement, Hunyuan upgrades, Yuanbao/WorkBuddy/CodeBuddy distribution and cloud pricing all match that story. This is not a random sequence of initiatives.

Management also names competitive threats directly. It discusses model parity, domestic token-price pressure, consumer softness, content-platform economics, GPU availability and the possibility that agents change click-through behaviour. The destination, however, is expressed in product leadership rather than five-to-ten-year financial terms. Without an AI capital envelope or return hurdle, strategic coherence does not yet prove capital efficiency.

7. Governance flags and minority-shareholder protection

Tencent has one ordinary-share class; Ma's 8.82% stake and Prosus/Naspers' 22.80% stake are influential but neither is a majority controller. The harder issue is the structure-contract/VIE perimeter. Tencent Computer and Shiji Kaixuan are each registered 54.29% to Ma, with the balance held by other founders; Shenzhen Tencent Tianyou is ultimately 60%/35%/5% held by Ma, Xu Chenye and a management member. These OPCOs held licences and generated approximately CNY430 billion of FY2025 revenue. Contractual arrangements transferred surplus cash to the group's WFOEs and the independent directors and auditor confirmed compliance and no distributions to registered owners. Nevertheless, Tencent itself states the contracts may be less effective than direct ownership and could be challenged under future PRC interpretation. This is a material, enduring minority-holder risk, not boilerplate.

Related-party activity is large in absolute terms but disclosed and primarily with associates/JVs: FY2025 revenue of CNY56.7 billion, purchases of CNY13.5 billion, year-end receivables/other receivables of CNY11.0 billion, payables/other payables of CNY3.5 billion and purchase commitments of CNY4.6 billion. Tencent says terms were negotiated in the ordinary course and no other material related-party balances existed. No FY2025 restatement, qualified audit opinion, material internal-control weakness, CEO/CFO transition or new company-disclosed enforcement action was identified. No clustered CEO selling was identified in the issuer materials reviewed, but the available monthly/next-day returns are not a complete insider-trading database; this should not be treated as proof of no sales.

8. Peer comparison

Peer leader	Capital allocation	Transparency	Relative five-year stewardship
William Ding, NetEase	Focused games portfolio, regular dividends and a US$5B repurchase authorization; fewer large adjacent bets, but founder control is stronger.	Simpler accounts, but fewer ecosystem KPIs and meaningful VIE risk.	Comparable or slightly better per-dollar discipline; Tencent has broader proof of operational reinvention.
Mark Zuckerberg, Meta	Core ad returns are exceptional, but Reality Labs losses and very large AI capex make marginal returns less proven.	Better numerical quarterly revenue, expense and capex ranges; worse dual-class minority control.	Tencent ranks better on governance-adjusted capital restraint, Meta better on disclosure precision.
Eddie Wu / Joe Tsai, Alibaba	FY2025 repurchases of US$11.9B cut shares 5.1%, and non-core disposals recovered capital; earlier sprawl and leadership churn remain.	More explicit capital-management letters and quantified returns, but shorter in-seat record.	Tencent ranks ahead on continuity and demonstrated operating reset; Alibaba's current framework is improving.

Official peer anchors: [NetEase FY2025 results](https://ir.netease.com/node/15256), [Meta FY2025 results](https://investor.atmeta.com/investor-news/press-release-details/2026/Meta-Reports-Fourth-Quarter-and-Full-Year-2025-Results/), and [Alibaba chairman/CEO letter](https://home.alibabagroup.com/en-US/document-1871720871488389120).

9. Management gate verdict

YELLOW - investable but unresolved. Tencent's founder-led team has demonstrated durable operating judgment: it corrected low-return cloud activity, lifted statutory operating margin by 12.1 percentage points from FY2022 to FY2025, restored diagnostic ROIC to 18.9%, generated CNY223.9 billion of FY2025 mechanical FCF and reduced diluted shares despite SBC. Disclosure is candid enough to distinguish weak metrics from strong ones, and the team protected per-share value through a genuine regulatory and macro stress period.

A clean PASS requires three observable conditions: **(1)** FY2026-28 AI investment must produce disclosed revenue/gross-profit or utilization evidence sufficient to demonstrate returns above the group's cost of capital while consolidated ROIC remains at least 15%; **(2)** diluted shares must continue to decline over a rolling three-year period and the board should add disclosed operating/FCF or ROIC conditions to senior-management awards; and **(3)** independent oversight must strengthen through a clearly identified lead independent director or equivalent chair challenge, with continued auditor confirmation that all OPCO surplus cash is transferred and no value leaks to registered VIE owners. Downgrade to FAIL if AI capex remains above 10% of revenue while ROIC falls below 12% for two years without quantified remediation, if buybacks cease while dilution resumes, or if any VIE cash-transfer, related-party or regulatory event demonstrates that listed minority

holders do not receive the economics Tencent reports.

Sources

- [Tencent 2025 Annual Report](https://static.www.tencent.com/uploads/2026/04/09/62d786fcf3d3c8cb7e54791ee95439ac.pdf), especially pp. 61-78, 82-101, 208-255 and 265-266.
- [Tencent 2026 Interim Report](https://www.tencent.com/wp-content/uploads/2026/08/E700_IR.pdf).
- [Tencent FY2025 results](https://static.www.tencent.com/uploads/2026/03/18/bd32d8ee320b72f0d72d545fd2d65851.pdf), [Q1 2026 results](https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf), and [Q2 2026 results](https://www.tencent.com/wp-content/uploads/2026/08/Tencent-Announces-2026-Second-Quarter-Results.pdf).
- DR-cleared `data_package.md`, QFR-sealed statutory bridge SHA-256 `7840cdbab10aee0c97531586ebcc1837b6470951d6963bf3ce5895e17a5ea922`, and live FMP earnings-call transcripts retrieved 9 September 2026 for Q3 2024-Q2 2026; FY2025 Q4 returned no transcript and was replaced only by official prepared materials.

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Tencent Holdings - Moat and 2046 Durability

As of: 9 September 2026 **TTM anchor:** 30 June 2026 **Assessment scope:** Tencent's four reportable segments; exact common segment-profit measure is gross profit, not segment operating profit.

Evidence discipline

The DR-cleared data package and QFR-sealed statutory bridge control the historical figures, and Sections 4-5 of all four completed segment appendices are incorporated. Current primary evidence includes Tencent's [2026 Interim Report](https://www.tencent.com/wp-content/uploads/2026/08/E700_IR.pdf), [2025 Annual Report](https://static.www.tencent.com/uploads/2026/04/09/62d786fcf3d3c8cb7e54791ee95439ac.pdf), [Weixin/WeChat disclosure](https://www.tencent.com/products/weixin-wechat/), a live 12 August 2026 FMP transcript pull, [NetEase's 2025 Form 20-F](https://ir.netease.com/static-files/12085e16-bfc8-4e2b-b110-cd5b861521ed), [Kuaishou's FY2025 results](https://ir.kuaishou.com/news-releases/news-release-details/kuaishou-technology-announces-fourth-quarter-and-full-year-2025), and [Alibaba's FY2026 Form 20-F](https://data.alibabagroup.com/ecms-files/1514386754/b0f928b2-88f0-469d-905e-a714d19fb913/2026%20SEC%20Form%2020-F.pdf). Management claims are not treated as proof without operating corroboration.

1. Moat taxonomy applied

Network effects - strong, concentrated in Weixin. Tencent's most defensible asset is the graph linking consumers, creators, merchants, advertisers, Mini Program developers, enterprises, and payment counterparties. Combined Weixin/WeChat MAU reached 1.439 billion at 30 June 2026; Tencent also discloses more than RMB8 trillion of Mini Program GMV in 2024 and more than one billion daily commercial-payment transactions since late 2019. Users attract merchants and creators, whose services preserve utility and transaction frequency. The effect is strongest in Marketing and FinTech and also improves content distribution. Multi-homing limits it: merchants and creators can use rival platforms. The hard-to-replicate asset is the relationship graph and daily utility, not exclusive supply.

Switching costs - moderate to strong for merchants and enterprises, weaker for consumers. A consumer can open another short-video, game, or AI app at negligible monetary cost. Recreating years of contacts, group chats, Official Account followers, Mini Program integrations, WeCom workflows, payment acceptance, customer-service histories, and advertising conversion data is materially harder. Enterprise switching costs are therefore operational and data-linked rather than contractual. Tencent does not disclose retention or net revenue retention, so the magnitude cannot be proved with SaaS-style cohorts. The moat is strongest when WeCom, Weixin Pay, Mini Programs, advertising, and customer operations are used together; stand-alone cloud compute has much lower switching costs.

Scale economies - strong in games, advertising, trust/safety, and infrastructure, but not automatically durable in cloud. Tencent spreads game engines, live operations, recommendation, fraud, moderation, and AI costs across enormous traffic. TTM gross margins of 61.9% in VAS, 57.2% in Marketing, and 51.3% in FinTech/Business show economic output, not merely volume. Yet 2026 compute procurement shows that model scale requires repeated capital. Alibaba reported 40% external cloud growth in its March 2026 quarter and AI products at 30% of cloud revenue. Scale is a moat when joined to proprietary traffic and data, but only an entry barrier in benchmarkable compute.

Brand and trust - strong for Weixin and selected franchises, moderate at group level. Weixin is embedded in communication, commerce, and payments. Honour of Kings, Peacekeeper Elite, League of Legends-related assets, Supercell franchises, and newer evergreen titles have distinct communities. Tencent's 2025 Weixin brand-protection platform covered more than 700 brands, illustrating the governance needed for commercial trust. Brand does not protect every new game or cloud workload, and Tencent's international consumer brand is less unified.

Regulation and licences - barrier and ceiling, not a clean moat. Payment, online gaming, content, finance, telecommunications, and data operations require licences, compliance systems, and institutional relationships that favour scaled incumbents. Tencent's annual report also discloses that relevant operating companies hold the licences through its contractual-control structure. The same regime can cap monetisation, limit product bundling, slow game approvals, restrict data combination, or force interoperability. China's [non-bank payment rules](https://english.www.gov.cn/policies/latestreleases/202312/17/content_WS657ea0e5c6d0868f4e8e244f.html) strengthen supervision, due diligence, account security, and anti-financial-crime duties. The February 2026 [internet-platform antitrust compliance guidance](https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fldzfys/art/2026/art_ad10c5301fcb426cb839153ca9f5a274.html) specifically addresses data, algorithms, traffic allocation, fees, tying, and platform dependence. Regulatory capability protects

Tencent against small entrants but prevents underwriting monopoly-style extraction.

IP and patents - strong in games and content, weak as a group-wide explanation. Proprietary franchises, licensed IP relationships, in-house studios, game engines, live-operations knowledge, and recommendation/fraud models matter. Tencent defined 14 evergreen games in 2024 and reported lifetime-high average DAU for Delta Force and VALORANT PC in Q2 2026, alongside a leading new China mobile title. NetEase's own 2025 filing confirms that games competition turns on content quality, talent, user traffic, and global IP collaborations - capabilities Tencent has built over decades. Patents alone are not the moat: models and algorithms diffuse, and hits can be copied. The protectable profit pool comes from a portfolio of IP plus distribution and operating skill.

High-trust procurement - moderate in payments and enterprise products, not decisive in public cloud. Banks, merchants, governments, and large enterprises value security, compliance, continuity, and integration with Weixin/WeCom. Those attributes lengthen vendor evaluation and reduce casual switching. However, Tencent does not disclose contract duration, renewal rates, minimum commitments, or backlog sufficient to prove a broad procurement lock. This is a reinforcing layer, not the core thesis.

2. Per-segment moat

Value Added Services (48.2% of TTM revenue; 52.6% of TTM gross profit): PASS today; five-year durability strong, ten-year probable, twenty-year conditional on portfolio renewal. The moat combines evergreen game IP, internal development, talent, live operations, China publishing capability, global studios, and privileged social distribution. Social Networks adds the Weixin/QQ graph. Q2 2026 international-games revenue fell 0.8% reported as weaker Supercell titles offset growth elsewhere, while fee-based VAS subscriptions fell 2% year-on-year: portfolio churn is real. It breaks if evergreen titles shrink without replacement, approvals tighten, player time shifts to a medium Tencent does not control, or studios and IP owners choose rivals. Earliest signs are multi-year declines in major-title DAU/receipts, stalled international share, and VAS gross margin below the mid-50s absent deliberate reinvestment.

Marketing Services (20.2% of TTM revenue; 20.4% of TTM gross profit): PASS today; five-year durability strong, ten-year probable, twenty-year conditional on Weixin remaining the commercial interface. Tencent monetises scarce native attention plus first-party relationship, content, merchant, and transaction signals. The closed loop from Video Accounts/Search/Moments to Official Accounts, Mini Programs, Mini Shops, and Weixin Pay improves attribution and advertiser ROI. Q2 2026 revenue rose 22%; Video Accounts time spent rose more than 20%; and AIM+ had already powered about 30% of advertiser spending in Q1 2026. The moat is distribution and closed-loop data, not the bidding workflow: Kuaishou reported UAX penetration near 80% of non-e-commerce ad spend and RMB4.0 billion of spend driven by AIGC marketing materials in Q4 2025, showing automated creative and bidding are rapidly replicable. It breaks if user time and commercial intent migrate to rival feeds or AI agents, or privacy/antitrust rules prevent cross-surface optimisation. Earliest signs are declining Weixin engagement, ad-load increases needed to sustain revenue, eCPM/advertiser growth trailing the wider market for four quarters, and weakening Mini Shops conversion.

FinTech and Business Services (30.3% of TTM revenue; 27.5% of TTM gross profit): YELLOW; five-year durability good, ten-year mixed, twenty-year conditional. Weixin Pay has network, trust, compliance, merchant-acceptance, and ecosystem-embedding advantages; financial distribution benefits from access to customers while regulated institutions retain product and balance-sheet roles. Those features can endure, but low take rates and supervision constrain pricing. Business Services is more mixed: WeCom and Tencent Meeting inherit distribution and workflow integration, while public cloud, GPU rental, MaaS, and generic productivity workflows face Alibaba, Huawei, ByteDance, and other model/cloud vendors. Tencent's Q2 call said cloud prices were raised across the board in May and discounts reduced, but management also acknowledged the market had been price competitive; input-cost inflation and capacity tightness are not a durable moat. It breaks if payment frequency or merchant acceptance loses share, regulators sever data/traffic advantages, or external cloud growth requires structurally sub-economic compute. Earliest signs are payments volume or active merchants lagging consumption for four quarters, gross margin reversing below the mid-40s, cloud price increases failing to hold, and WorkBuddy paid retention or token economics weakening after free subsidies recede.

Others (1.3% of TTM revenue; negative TTM gross profit): FAIL as a moat-bearing segment at five, ten, and twenty years. Cross-media IP may exploit Tencent's distribution, but there is no stable disclosed profit pool, TTM gross margin was negative 21.8%, and the reviewed five-year base reaches only break-even. It is too small to impair the group moat, but deserves no terminal-value premium without sustained positive gross profit.

The blended moat is weaker than Weixin alone but stronger than a simple revenue mix implies. VAS and Marketing Services generated about 73% of TTM gross profit, and the moated payment franchise is embedded inside the remaining large

segment. Cloud and Others dilute quality; they do not dominate economics. The principal risk is cross-subsidy: if AI-native applications and cloud absorb increasing capital while the Weixin/games profit pools mature, the equity's return on the moat can fall before user relevance visibly breaks.

3. Margin persistence evidence

Tencent does not disclose segment operating income; gross margin is the only common segment-profit measure. A comparable ten-year statutory operating-margin series is not available in the DR-cleared package because Tencent's 2023 classification change moved investment-related items below operating profit and restated comparatives. The current-basis five-year series is therefore more decision-useful than splicing incompatible ten-year figures.

Margin	FY2021	FY2022	FY2023	FY2024	FY2025	TTM Jun-26
Consolidated operating margin	22.3%	20.0%	26.3%	31.5%	32.1%	32.8%
VAS gross margin	52.5%	50.7%	54.3%	56.9%	60.2%	61.9%
Marketing Services gross margin	45.8%	42.3%	50.6%	55.4%	57.5%	57.2%
FinTech and Business Services gross margin	29.9%	33.0%	39.6%	47.0%	50.8%	51.3%
Others gross margin	13.3%	-4.0%	-14.6%	8.5%	3.6%	-21.8%

The 2022 compression is a useful stress observation: revenue declined and all three major segment margins were lower or only beginning to recover, yet profitability did not collapse. From 2022 through the TTM, major-segment margins expanded despite aggressive rivals, regulatory constraints, and large AI spending. Mix toward internally developed games, higher-value advertising, cloud optimisation, and FinTech mix all contributed. This is strong evidence that the moat monetises, but it is not a clean ten-year constant-margin proof: some improvement reflects portfolio pruning, accounting perimeter, and favourable mix. Q2 2026 Marketing gross margin slipped one point year-on-year as AI depreciation and operating cost absorbed growth, while group FCF turned negative amid compute procurement and prepayments. The 2046 test must therefore judge returns after sustained AI capital, not just the income-statement margin.

4. AI disruption stress test

VAS: A game is not a simple prompt-to-output workflow. Models will reduce art, coding, localisation, customer-service, and content-production costs, but persistent multiplayer communities, licensed IP, distribution, live economies, anti-cheat, and event operations remain. AI may increase the supply of competent games and shorten hit cycles, so it helps Tencent operationally while lowering some entry barriers. VAS is platform-adjacent and distribution-protected, not immune.

Marketing Services: Creative generation and bid management are replicable workflows; Kuaishou's UAX/AIGC metrics prove this. Tencent's defensible layer is the impression supply, relationship graph, commercial-intent signals, conversion path, and payment-confirmed outcomes. AI improves recommendation and eCPM today, but a consumer agent that intermediates discovery and purchases could divert attention from feeds and search. Tencent must make Weixin itself an agent surface rather than allow an external agent to become the customer interface.

FinTech and Business Services: Payment clearing, fraud control, regulated distribution, merchant acceptance, and identity are chokepoint-like services; AI changes the interface but still needs a trusted execution rail. Cloud compute and MaaS are platform-adjacent but capital-intensive and benchmarkable. WorkBuddy, CodeBuddy, and generic office-agent tasks are the most exposed workflows: rival foundation-model providers can bundle comparable harnesses, and Alibaba explicitly describes agents as the future primary digital interface. Tencent's advantage is Weixin/WeCom distribution, enterprise relationships, Skills, and orchestration across models - useful, but not yet proven through disclosed paid retention or cohort economics.

Others: Generative media lowers production cost and supply barriers simultaneously; absent unique IP, it is exposed.

The most AI-protected profit mechanism is Weixin-embedded payment/identity and merchant execution: models can choose a transaction but do not cheaply recreate regulated acceptance and the relationship graph. The most exposed is stand-alone enterprise agent software and commodity cloud/MaaS. Marketing is the swing factor because AI can either deepen Tencent's closed loop or move discovery above it.

5. The 2046 test

Date tested: 9 September 2046. A specific surviving Tencent would operate China's leading trusted communication, digital-identity, merchant-service, and transaction network; sell advertisers and merchants verified access and conversion inside that network; publish and operate a global portfolio of persistent interactive-entertainment worlds; and provide regulated payments, fraud controls, private-data compute, and enterprise-agent orchestration linked to Weixin/WeCom. Consumers would buy games, music, premium communities, virtual items, and agent services. Merchants and advertisers would buy demand, conversion, payments, and customer operations. Enterprises and financial institutions would buy secure workflow, compute, and distribution integrations. VAS would have evolved from mobile titles into cross-device interactive worlds; Marketing Services into agent-mediated commercial discovery and attribution; and FinTech/Business Services into payment execution, compliant identity, private inference, and enterprise automation. Others would remain small or disappear. A credible 2046 consolidated operating margin is high-20s to low-30s - roughly stable to modestly lower than the 32.8% TTM margin - because network and software economics persist but compute, safety, creator payouts, and regulation absorb more gross value. The durable moat is the combined social/identity graph, trusted transaction layer, game IP and live-operations portfolio, and the ability to distribute new services through these assets.

That description is plausible but not yet PASS-grade. In the bear case, an external AI layer becomes the default interface; interoperability and data-minimisation rules prevent cross-service graph use; merchants follow agent-controlled demand elsewhere; Weixin becomes a low-monetisation messaging/payment utility; games remain hit-driven; and cloud earns infrastructure returns. Tencent itself lists AI-driven product-cycle acceleration, market-share erosion, compute investment, privacy, antitrust, gaming, finance, and telecom regulation as significant risks. I assign this path a meaningful but non-majority probability of roughly 30% as analyst judgement, not a sourced forecast.

2046 test: YELLOW. The future company can be described specifically, and two businesses - Weixin's relationship/transaction graph and evergreen interactive entertainment - have already demonstrated 15-25 years of relevance. The unresolved issue is whether Tencent owns the agent-era interface or merely supplies messaging, payments, and compute beneath someone else's agent. Upgrade to PASS if (1) Weixin's native agent achieves durable engagement without weakening core communication, (2) merchants demonstrably use Tencent's agent-to-ad-to-payment loop with stable take economics, and (3) AI capex normalises while major-segment margins and ROIC hold. Downgrade to FAIL if (1) Weixin engagement or commercial-payment frequency declines for six to eight quarters, (2) Marketing growth requires rising ad load while pricing/ROI lags rivals, or (3) cloud/AI capex remains structurally above internally generated returns and paid agent retention does not emerge.

6. Competitive threat inventory

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
External AI agent becomes the primary interface	Agent owns discovery, task orchestration and purchase intent; Tencent is reduced to a rail or commodity model/compute supplier	Marketing; Business Services; FinTech; Social Networks	Native Weixin-agent engagement stalls; external-agent referrals rise; paid WorkBuddy retention weakens; ad/search queries decelerate	Medium-high
Rival attention-commerce loops gain user time and merchant budgets	ByteDance, Kuaishou and Alibaba combine video/search, automated ads, commerce and payments; multi-homing shifts marginal spend	Marketing; Social Networks; FinTech	Weixin time or Video Accounts growth slows; eCPM/advertiser count trails; Mini Shops conversion and payment frequency lag	High
Games portfolio and talent/IP competition intensifies	NetEase and global studios compete for players, developers, licences and IP; generative tools raise content supply	VAS	Evergreen-title cohort shrinks; launch payback lengthens; major-title DAU/receipts fall; international games fail to offset China maturity	High but manageable

7. Pricing power verification

Pricing power is observable but uneven. Marketing has the best evidence: Tencent attributed growth to AI targeting, closed-loop conversion, ad performance and pricing while keeping Video Accounts ad load below the short-video average. This is value-based monetisation, but advertiser churn and like-for-like eCPM are undisclosed. In cloud, management said it raised prices across the board in May and reduced discounts. That shows cost pass-through in a constrained market, not structural power; post-increase adoption and churn are undisclosed.

VAS pricing is indirect: lifetime-high title receipts show willingness to spend, but no broad price increase or churn response is disclosed. FinTech pricing is deliberately weak under regulation, competition, partner economics, and low take rates; its

strength is volume and trust. No multi-year escalator or minimum-commitment schedule is disclosed for Business Services. Group pricing power is **moderate**, strongest in scarce advertising and differentiated entertainment, weakest in payments and commodity cloud.

8. Moat verdict

Moat gate: YELLOW 2046 test: YELLOW

Tencent has an observable moat today: Weixin's social/identity/merchant/payment graph, a scaled game-development and live-operations portfolio, and closed-loop advertising produced resilient user metrics and strong, rising major-segment margins. The moat is not broad enough to call every segment protected; cloud and AI-agent workflows remain contestable, Others has no demonstrated profit pool, and pricing power is mixed. The hard 2046 blocker is the interface question: Tencent must keep Weixin central as AI agents reorganise discovery and commerce while regulators restrict data combination, tying, and fee extraction. The gates can upgrade only when agent-era engagement, paid retention, merchant conversion, and post-investment returns demonstrate that AI reinforces the graph rather than sits above and disintermediates it.

Structured boundary: `trade_execution_authorized=false`. This appendix is research only and makes no ranking, sizing, trading, messaging, or portfolio recommendation.

Value Added Services - Segment Deep Dive

Company: Tencent Holdings **Security:** XHKG:0700 **Reporting currency and scale:** CNY billions unless otherwise stated **Forecast anchor:** TTM ended 2026-06-30 **Forecast horizon:** 2031-06-30, exactly five calendar years after the TTM anchor **Exact sealed segment profit basis: Gross profit Research status:** Research only; `trade_execution_authorized=false`

0. Segment boundary and taxonomy note

Value Added Services, or VAS, contains Domestic Games, International Games and Social Networks. Tencent has separately disclosed those three revenue lines since Q3 2021, and the data package concludes that the FY2021-FY2025 perimeter is comparable. There was no VAS restatement within the last three years. The FY2024 rename of Online Advertising to Marketing Services affected a different segment, while the FY2023 reclassification of investment-related items affected the consolidated income statement rather than VAS revenue or VAS gross profit. The relevant boundary is therefore Q3 2021 for the stable three-product revenue split; all dollar comparisons below stay within that boundary. The exact common segment-profit metric is issuer-disclosed **Gross profit**, never segment operating income. Tencent does not allocate segment operating expenses, so selling and marketing, general and administrative expense, other gains or losses and all below-line items remain outside this appendix and are projected once by the synthesis stage [data_package §1, paragraphs 1-4; §3a, “Forecast-driver schedule” and status line].

1. What this segment actually is

VAS is the paid-entertainment and digital-content layer of Tencent’s consumer ecosystem. It is not one homogeneous subscription business. Domestic Games sells virtual items, passes, consumables and, in some cases, premium game copies to players in mainland China. International Games monetises games outside mainland China through similar free-to-play and premium mechanisms, using Tencent-owned studios, acquired studios, licensed intellectual property and publishing relationships. Social Networks monetises digital content and social experiences around Weixin/WeChat, QQ and related services, including subscriptions, music and video content, live and social entertainment, virtual items, mini-game platform economics and other paid privileges. The three lines share identity, payment, recommendation and distribution infrastructure, but their content economics and competitive clocks are different.

The customer is predominantly an individual consumer, although the economic payer may be a parent, a group organiser, an advertiser-funded developer or a creator buying platform services. Games are priced through a wide ladder: free entry, low-ticket virtual goods, recurring battle passes, premium content, and occasional full-copy sales. This makes headline user scale less useful than payer conversion, engagement, live-operations cadence and spending depth. Social Networks similarly mixes recurring subscriptions with transaction-like virtual-item revenue and platform revenue shares. A paid VAS subscription is not necessarily one unique person because the issuer’s KPI can count subscriptions to different services, and the definition changed from registered subscriptions to average daily subscriptions in FY2024 [data_package §0a, “Historical internet-platform KPI families,” row “Fee-based VAS subscriptions”].

Go-to-market is unusually integrated. Tencent can surface a game, mini game, video, music service or paid privilege through a consumer graph already used for communication and payments. Weixin/WeChat and QQ reduce login and payment friction; social graphs can accelerate discovery; live operations and recommendation systems sustain engagement; and Mini Programs or Mini Games give third-party developers a distribution route. Internationally, however, Tencent cannot rely on the same domestic super-app distribution advantage. It instead competes through studio quality, franchise ownership, publishing capability, localisation, cross-platform delivery and acquisition of talent or intellectual property. Management’s statement that it would “continue seeking to acquire games studios” is therefore not merely financial optionality; it identifies a real go-to-market and content-supply mechanism [data_package §6, VAS row “Q3 FY2025 call; James Mitchell,” topic “Games M&A”].

The economic contract also differs by product. A mature domestic live-service game can earn high incremental gross profit when new content reactivates a large installed community, but it must continuously fund development, operations, customer service, distribution fees and revenue shares. A newly acquired international studio can add reported growth while carrying platform fees, royalties and premium-copy volatility. Social content can have recurring subscription characteristics, but music, video, literature, livestreaming and creator ecosystems require content royalties, production spending and revenue-sharing. The model therefore forecasts the three revenue engines separately and derives VAS gross profit from an explicitly labelled analyst allocation of product margins that is calibrated back to the disclosed TTM segment total. That allocation is a modelling device, not an assertion that Tencent disclosed product-level gross margins.

2. Current economics - TTM ended 2026-06-30

TTM VAS revenue was CNY380.304B, constructed from the four non-overlapping quarters Q3 2025 through Q2 2026 in the DR-cleared data package. Product revenue was CNY173.7B for Domestic Games, CNY79.3B for International Games and CNY127.3B for Social Networks; rounding of the three displayed product lines explains the CNY0.004B difference from the segment total. VAS generated CNY235.215B of TTM **Gross profit**, equal to a 61.85% gross margin. Those are the only historical TTM dollars used in the forward model [data_package §5, VAS quarterly rows and product-quarter table; §3a, TTM bridge row “VAS gross profit”].

The current mix is approximately 45.7% Domestic Games, 20.9% International Games and 33.5% Social Networks, based on the rounded product figures. Games therefore contribute about two-thirds of segment revenue. That is helpful for margin because digitally delivered games can scale well, but it also makes VAS dependent on hit quality, renewal of mature franchises, regulatory licences and platform economics. Social Networks supplies a slower-growing, more recurring counterweight. Its economics are not risk-free: paid-content competition, content royalties, regulatory limits on livestreaming and a maturing user base can all constrain revenue or margin.

Recent momentum is uneven rather than uniformly strong. Total VAS revenue grew 16%, 14%, 4% and 8% in Q3 2025, Q4 2025, Q1 2026 and Q2 2026, respectively. Domestic Games grew 15%, 15%, 6% and 17%. International Games grew 43%, 32%, 13% and then declined 0.8%, while Social Networks grew 5%, 3%, declined 2% and grew 0.8% [data_package §5, VAS quarter and product tables]. The pattern matters: TTM revenue includes a powerful international comparison in late 2025 that management explicitly warned should not be extrapolated. A straight-line use of FY2025 growth would overstate the base case.

Current user and subscriber evidence reinforces the mixed picture. Combined Weixin/WeChat MAU reached 1,439M in Q2 2026, up from 1,418M at FY2025, while mobile/smart-device QQ MAU was 520M versus 508M. These audiences overlap and must not be added. Average daily fee-based VAS subscriptions were 259M at Q2 2026 versus 267M at FY2025, and the post-FY2024 definition is not directly comparable with the earlier registered-subscription series [data_package §0a, KPI rows “Combined MAU,” “Mobile/smart-device QQ MAU” and “Fee-based VAS subscriptions”]. The inference is that ecosystem reach remains exceptional, but aggregate subscription count is not currently a growth engine strong enough to justify a high Social Networks forecast.

Capital intensity must be interpreted at group level because Tencent does not disclose VAS capex. Group issuer-defined capex rose from CNY23.9B in FY2023 to CNY76.8B in FY2024, CNY79.2B in FY2025 and CNY84.7B in H1 2026 [data_package §0a, KPI row “Issuer-defined capex”]. Some of that build supports AI, cloud and advertising rather than VAS. Still, games inference, recommendation, rendering, safety, model development and content delivery consume shared infrastructure. Gross profit excludes the later corporate R&D burden, so a stable or rising VAS gross margin does not by itself prove that incremental VAS economics are becoming less capital-intensive. This is why this appendix forecasts only gross profit and leaves central expenses and capex for consolidated synthesis.

3. Unit economics

Domestic Games

Domestic Games revenue becomes gross profit after app-store or channel fees, developer and intellectual-property revenue shares, server and bandwidth costs, payment processing, customer support, live-operations delivery and the direct amortisation or cost of content where applicable. A long-lived title can be attractive because a new map, character or competitive season is delivered to an installed base whose identity, friends and payment credentials already exist. Revenue can rise faster than direct hosting cost, creating gross-margin leverage. The primary variable cost is often the platform or partner revenue share rather than compute. The main fixed reinvestment burden-design, engineering, art, anti-cheat and pipeline development-may sit partly below gross profit in research and development, so the disclosed segment gross margin is not a complete title-level return metric.

Margin improves when revenue shifts toward internally developed titles, direct payment routes, high-retention live services and mature content with efficient ongoing production. It weakens when Tencent relies more on licensed IP, third-party studios or channels, pays elevated user-acquisition costs, launches games with heavy server or support requirements, or must amortise unsuccessful content. Regulation can delay monetisation without eliminating pre-launch development cost. Player dissatisfaction can force refunds, reduce payer conversion or make aggressive monetisation counterproductive. The key unit is therefore not downloads; it is durable gross profit per engaged payer after platform and content sharing.

International Games

International Games uses the same broad monetisation tools but faces a different acquisition equation. Tencent often needs external storefronts, console platforms, local publishing, studio acquisitions and global marketing. Platform fees and royalties can be material, and premium releases may recognise revenue more front-loaded than a domestic live-service title. Geographic diversification reduces dependence on one regulator and one consumer cycle, yet introduces franchise, integration, labour, foreign-exchange and local-compliance risk. Management's warning that the 43% Q3 2025 growth rate included consolidation and upfront copy sales means part of the historical surge was perimeter or recognition timing, not an enduring same-store user-growth rate [data_package §6, VAS row "decelerate closer to the underlying trend line"].

The gross-margin upside comes from owning intellectual property, spreading development tools across studios, extending a successful franchise across regions and platforms, and sustaining live operations after launch. The downside comes from acquisition accounting, royalties, external platforms, hit-driven marketing and the binary economics of premium releases. The base model therefore decelerates International Games to a 7.2% five-year CAGR despite its 18.3% FY2022-FY2025 CAGR. The bull case assumes repeatable global publishing and franchise extension. The bear case assumes the late-2025 growth pulse reverses and the portfolio fails to replace aging titles.

Social Networks

Social Networks converts user engagement into subscription fees, virtual-item purchases, content access, platform revenue shares and other paid privileges. Its direct cost base includes music and video royalties, creator or performer revenue share, content production, bandwidth, payments, customer service and platform operations. Unlike a game, a content library can require continuing cash commitments even when subscriber growth slows. Unlike a standalone streaming service, Tencent can distribute through Weixin/WeChat and QQ and use integrated payments, identity and recommendation, lowering friction and supporting cross-sell.

The line nevertheless faces a mature-penetration problem. Weixin/WeChat already has enormous reach, QQ's user base is mature, and fee-based subscriptions weakened at the latest disclosed interim date. Incremental revenue must therefore come more from willingness to pay, price/mix, better content, mini-game ecosystems and deeper engagement than from raw account additions. That can be good for gross profit if higher-value subscriptions and algorithmic distribution grow faster than low-margin content. It can be bad if the platform must spend aggressively on exclusive content or share more economics with creators and developers to defend time spent against short-video and community platforms.

Segment-level gross-profit history

VAS gross margin fell from 52.45% in FY2021 to 50.65% in FY2022, then rose to 54.27% in FY2023, 56.92% in FY2024, 60.20% in FY2025 and 61.85% in the TTM [data_package §3, VAS rows "Gross profit" and "Gross margin"; §3a, TTM bridge]. That 11.2 percentage-point recovery from FY2022 to TTM is economically important. It likely reflects a favourable games mix, better monetisation, operating efficiency in direct costs and the scaling of higher-quality digital revenue. But it also leaves a demanding comparison. A further five percentage points of margin expansion would require more than generic "AI efficiency"; it would require better content and channel mix without a matching rise in royalties, platform fees or user-acquisition cost.

The model therefore separates growth and margin. Bull revenue does not automatically receive the maximum margin because rapid international growth may bring storefront and studio costs. Bear revenue does not automatically collapse gross margin to loss-making levels because mature domestic franchises and subscription revenue remain. Product-level starting margins are analytically allocated solely to reconcile the disclosed TTM VAS gross profit. They are not historical issuer disclosures and must not be cited as such in later stages.

4. Competitive dynamics

Domestic games: scale leader, not an uncontested monopoly

The 2025 China Gaming Industry Report put mainland gaming-market actual sales revenue at CNY350.79B. Comparing Tencent's DR-cleared FY2025 Domestic Games revenue of CNY164.2B with that industry total suggests a rough 47% scale proxy, not a formal market-share calculation, because perimeter, gross-versus-net recognition, platform revenue shares and cross-border classification may differ. The industry figure is reported in an HKEX filing that cites the Game Publishing Committee and its research committee [industry context source](https://www1.hkexnews.hk/listedco/listconews/sehk/2026/0428/2026042804549.pdf); Tencent numerator: [data_package §4, row "VAS / Domestic Games"]. The right conclusion is that Tencent is a central industry platform and publisher, not that every second renminbi of end-user spend is captured on an identical accounting basis.

NetEase is the clearest scaled domestic competitor. Its 2025 Form 20-F reported CNY92.1B of games and related VAS revenue, with 97.3% from online games, and identified in-house franchises and newly launched titles as growth drivers. NetEase also reported a 69.7% games gross margin and described competition on user time and spending, talent and global studio relationships [NetEase 2025 Form 20-F](https://www.sec.gov/Archives/edgar/data/1110646/000110465926043468/ntes-20251231x20f.htm). That evidence matters for two reasons. First, Tencent's distribution advantage does not eliminate the possibility that a focused rival can create durable franchises. Second, high games gross margins are feasible at scale, supporting the model's view that VAS can sustain margins above 60% when games mix is favourable. It does not justify assigning NetEase's disclosed margin directly to Tencent products.

Smaller publishers, creator-led mini games and global studios add supply. More approvals can expand Tencent's addressable content pipeline but also increase competition for player attention. The National Press and Publication Administration publishes title-level domestic and imported game approvals, confirming that approval remains a product-by-product operating gate rather than a purely economic barrier [NPPA approval database](https://www.nppa.gov.cn/bsfw/jggs/yxspjg/). Regulatory approval protects incumbents from unconstrained entry, but it also creates timing risk for incumbents' own releases. It is a barrier and a hazard at the same time.

Pricing power in games is behavioural rather than contractual. Tencent can price scarce virtual items, passes and premium privileges, but players can refuse to pay, switch titles or punish perceived exploitation. The durable source of power is the ability to sustain communities and refresh content, not a legal right to raise prices. Mature franchises, social graphs, esports ecosystems and multi-title publishing reduce single-title dependence. Management's "expansion of the royal guard" description is consistent with a portfolio strategy, but the appendix does not treat it as proof that every new title succeeds [data_package §6, VAS row "an expansion of the royal guard"].

International games: broader opportunity, weaker proprietary distribution

The global games market closed 2025 at US$201.6B and grew 9.1%, with mobile at US$113.3B and 10.7% growth; Newzoo projects a 5.1% global CAGR through 2028. It also notes rising user-acquisition costs and divergent live-service performance across platforms [Newzoo, June 2026](https://newzoo.com/articles/global-games-market-2025). This external base rate is useful because it brackets Tencent's international opportunity without importing Tencent historicals from outside the sealed package. A base International Games CAGR modestly above Newzoo's market forecast requires share gain, portfolio expansion or mix; a double-digit terminal cadence requires all three.

The competitive set is broad: NetEase and other Chinese publishers; Sony, Microsoft and Nintendo platform ecosystems; Electronic Arts, Take-Two, Activision-Blizzard within Microsoft, Epic, Roblox and specialised mobile publishers; plus independent studios competing for the same users and talent. Tencent has advantages in capital, live operations, mobile know-how and studio relationships. It has disadvantages where a rival controls hardware distribution, a dominant storefront or irreplaceable IP. Acquisition can buy content and talent, but purchase price and integration quality determine shareholder returns even if reported segment revenue grows.

Substitution risk is high at the title level and lower at the portfolio level. A player can leave one game instantly, but a publisher with multiple durable communities, shared tools, cross-promotion and global studios can replace some lost engagement. The portfolio moat is therefore statistical: many shots, better data and operations, and the ability to fund long development cycles. It is not immunity from creative failure.

Social networks and paid content: competition for time and wallet

Weixin/WeChat's communications position is deeply embedded, but VAS monetisation competes with short video, community video, music, literature, livestreaming, mini games and other entertainment. Douyin and Kuaishou compete for time and creators; Bilibili competes for youth communities, games and video attention; and standalone game and content platforms compete for subscriptions. Bilibili reported that game-related watch time rose 20% in 2025 and that its fan-support programme more than doubled, evidence that creator communities can monetise engagement outside Tencent's services [Bilibili FY2025 results](https://www.sec.gov/Archives/edgar/data/1723690/000119312526094863/d119863dex992.htm). The threat is not loss of messaging identity; it is loss of incremental leisure minutes and creator inventory.

Tencent's pricing power in Social Networks is strongest where content rights, identity, groups, payment and discovery reinforce each other. It is weakest where the user sees undifferentiated licensed content available through multiple apps. Content royalties and creator shares constrain gross margin, while regulation constrains monetisation formats. The latest decline in average daily fee-based subscriptions is therefore treated as an early warning rather than dismissed because MAU

remains high.

5. Moat at the segment level

VAS has a real but uneven moat. Domestic Games benefits from distribution through Tencent's consumer ecosystem, long-lived franchises, social graphs, payments, live-operations expertise, developer relationships, data, capital and regulatory experience. Those assets lower launch friction and improve the odds of sustaining a hit. They do not guarantee creative quality. The moat is strongest once a competitive game has accumulated years of player identity, social relationships, virtual inventories and esports or creator activity. Switching then means abandoning community and status, not merely uninstalling software.

International Games has a narrower platform moat but a potentially growing content moat. Owned studios, franchise rights, cross-platform production and global publishing are defensible if Tencent retains talent and allows creative autonomy. Acquisition alone is not a moat: rivals with capital can bid for the same assets, and acquired teams can lose key employees. Durability depends on repeatable studio governance and franchise extension. The base case assumes Tencent earns moderate share gains, not that capital guarantees hits.

Social Networks has the strongest network-effect substrate and the weakest evidence of near-term monetisation growth. Weixin/WeChat's communication graph is difficult to replicate because users need the same friends, family, work and merchant connections. QQ retains differentiated communities. Integrated identity and payments make paid services easier to distribute. Yet content itself can be multi-homed, and entertainment time can move to rivals without users abandoning messaging. The moat protects access and lowers customer acquisition; it does not confer unlimited subscription pricing.

Over five to ten years, the most durable protection is the combination of a very large identity graph, payment rails, distribution, a multi-franchise games portfolio and the ability to reinvest at scale. The biggest erosion risk is not one rival copying one feature. It is a gradual unbundling in which creators, younger users and developers build their primary economic relationships elsewhere while Weixin remains a utility. The segment-level moat therefore merits a positive durability assessment, but not a perpetually rising margin assumption.

6. Historical growth rates - reproduced from the data package

6.1 Five-year segment history

The following rows reproduce the DR-cleared annual VAS series. The product taxonomy is stable across all displayed years.

VAS metric	FY2021	FY2022	FY2023	FY2024	FY2025	Data package cite
Revenue, CNY B	291.572 [data_package §3, VAS row "Revenue, CNY B"]	287.565 [data_package §3, VAS row "Revenue, CNY B"]	298.375 [data_package §3, VAS row "Revenue, CNY B"]	319.168 [data_package §3, VAS row "Revenue, CNY B"]	369.281 [data_package §3, VAS row "Revenue, CNY B"]	§3, VAS historical table
YoY growth	10.4% [data_package §3, VAS row "YoY growth"]	-1.4% [data_package §3, VAS row "YoY growth"]	3.8% [data_package §3, VAS row "YoY growth"]	7.0% [data_package §3, VAS row "YoY growth"]	15.7% [data_package §3, VAS row "YoY growth"]	§3, VAS historical table
Gross profit, CNY B	152.936 [data_package §3, VAS row "Gross profit"]	145.647 [data_package §3, VAS row "Gross profit"]	161.919 [data_package §3, VAS row "Gross profit"]	181.657 [data_package §3, VAS row "Gross profit"]	222.296 [data_package §3, VAS row "Gross profit"]	§3, VAS historical table
Gross margin	52.45% [data_package §3, VAS row "Gross margin"]	50.65% [data_package §3, VAS row "Gross margin"]	54.27% [data_package §3, VAS row "Gross margin"]	56.92% [data_package §3, VAS row "Gross margin"]	60.20% [data_package §3, VAS row "Gross margin"]	§3, VAS historical table

6.2 Product history and arithmetic checks

"Three-year CAGR" below means FY2022 to FY2025, exactly three annual intervals. FY2022 is stated in the cited data-package row even though the compact table displays FY2023-FY2025 as requested. No values are back-solved.

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	3-year CAGR	Most recent YoY	Data package cite
Domestic Games	126.7 [data_package §4, row "VAS / Domestic Games"]	139.7 [data_package §4, row "VAS / Domestic Games"]	164.2 [data_package §4, row "VAS / Domestic Games"]	9.84% calculated from 123.9 FY2022 [data_package §4, same row]	17.5% calculated [data_package §4, same row]	§4, product row 1
International Games	53.2 [data_package §4, row "VAS / International Games"]	58.0 [data_package §4, row "VAS / International Games"]	77.4 [data_package §4, row "VAS / International Games"]	18.26% calculated from 46.8 FY2022 [data_package §4, same row]	33.4% calculated [data_package §4, same row]	§4, product row 2

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	3-year CAGR	Most recent YoY	Data package cite
Social Networks	118.5 [data_package §4, row “VAS / Social Networks”]	121.5 [data_package §4, row “VAS / Social Networks”]	127.7 [data_package §4, row “VAS / Social Networks”]	2.99% calculated from 116.9 FY2022 [data_package §4, same row]	5.1% calculated [data_package §4, same row]	§4, product row 3
Total VAS	298.375 [data_package §3, VAS revenue row]	319.168 [data_package §3, VAS revenue row]	369.281 [data_package §3, VAS revenue row]	8.69% calculated from 287.565 FY2022 [data_package §3, same row]	15.7% [data_package §3, VAS YoY row]	§3, VAS table

Arithmetic checks are within the required 2% tolerance. Domestic Games: CNY139.7B × 1.175 = CNY164.15B, which rounds to CNY164.2B. International Games: CNY58.0B × 1.334 = CNY77.37B, which rounds to CNY77.4B. Social Networks: CNY121.5B × 1.051 = CNY127.70B. Total VAS: CNY319.168B × 1.157 = CNY369.28B. Product sums also tie: CNY126.7B + CNY53.2B + CNY118.5B = CNY298.4B versus CNY298.375B in FY2023; CNY139.7B + CNY58.0B + CNY121.5B = CNY319.2B versus CNY319.168B in FY2024; and CNY164.2B + CNY77.4B + CNY127.7B = CNY369.3B versus CNY369.281B in FY2025. Every difference is display rounding below 0.02%.

The history shows three distinct base rates. Domestic Games compounded near 10% across FY2022-FY2025 after a FY2022 contraction. International Games compounded above 18%, but the latest quarterly pattern and management’s warning show that consolidation and premium-copy timing boosted the visible rate. Social Networks compounded only about 3%, consistent with a mature subscriber and user base. A credible five-year model therefore cannot apply one VAS CAGR to all three products.

7. Management guidance - quoted from the data package

Tencent did not provide numerical five-year VAS guidance. Every VAS-related forward excerpt in data-package §6 is reproduced below; interpretation remains deliberately narrower than the quote.

- **International Games - Q3 FY2025, James Mitchell:** “decelerate closer to the underlying trend line” [data_package §6, VAS row 1]. This rejects extrapolation of 43% quarterly growth. The base case steps growth down immediately, while the bear case allows a first-year decline.
- **Games M&A - Q3 FY2025, James Mitchell:** “continue seeking to acquire games studios” [data_package §6, VAS row 2]. Acquisitions can add revenue and franchises, but the segment model does not add an unsourced acquisition plug; any deal is upside to the organic-style bull path and needs separate capital treatment.
- **Games portfolio - Q3 FY2025, James Mitchell:** “an expansion of the royal guard” [data_package §6, VAS row 3]. This supports lower single-title dependence, but the model still assumes tapering Domestic Games growth as the portfolio reaches a larger base.
- **AI in games - FY2025 release, Ma Huateng:** “supported more engagement with our games” [data_package §6, VAS row 4]. AI is treated as an engagement and production-efficiency driver, not a separately monetised VAS product.
- **Core franchises - Q1 FY2026 release, Ma Huateng:** “grow their engagement, revenue and profit” [data_package §6, VAS row 5]. This supports continued domestic franchise growth, but “profit” is not converted into a segment operating-income forecast because Tencent discloses only gross profit by segment.
- **Video Accounts - Q2 FY2026 call, Huateng Ma:** “rapidly increasing video views” [data_package §6, VAS row 6]. Video engagement can support paid content and mini-game discovery, but much direct ad monetisation belongs to Marketing Services and is not booked into VAS.
- **Weixin AI - Q2 FY2026 call, Chi Ping Lau:** “become even more useful” [data_package §6, VAS row 7]. Agentic functions may reinforce ecosystem retention; no standalone AI subscription revenue is assumed.
- **Video Accounts time - Q2 FY2026 release, Tencent management:** “grew more than 20% year-on-year” [data_package §6, VAS row 8]. This is strong engagement evidence, but the absence of an absolute time base and the separate location of advertising revenue prevent a direct 20% VAS revenue assumption.

The common message is engagement, portfolio breadth and ecosystem reinforcement rather than numeric revenue guidance. The model accordingly uses management commentary as a directional constraint: Domestic Games remains positive in base; International Games decelerates sharply from the exceptional period; Social Networks grows slowly because engagement does not translate one-for-one into paid VAS revenue.

8. Forward growth assumptions - explicit and product-level

8.0 Anchor and modelling method

The revenue anchor is the sum of Q3 2025, Q4 2025, Q1 2026 and Q2 2026. Rounded product anchors are CNY173.7B Domestic Games, CNY79.3B International Games and CNY127.3B Social Networks, summing to CNY380.3B [data_package §5, product quarter table]. Every case compounds exactly five annual steps to 2031-06-30. The rates are intentionally non-uniform. No case is generated by applying one terminal CAGR to the entire segment.

8.1 Base case growth assumptions

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Domestic Games	9.84% [data_package §4]	Q2 2026 17% [data_package §5]	Qualitative engagement, revenue and profit growth [data_package §6]	7.99%	Franchise breadth and AI-supported engagement sustain share, but a larger base and title cyclicality drive a 10% to 6% annual deceleration.
International Games	18.26% [data_package §4]	Q2 2026 -0.8% [data_package §5]	Decelerate toward underlying trend [data_package §6]	7.20%	Global market growth and studio breadth support share gains, but consolidation and upfront-copy effects are not repeated.
Social Networks	2.99% [data_package §4]	Q2 2026 0.8% [data_package §5]	Engagement and usefulness, no numeric revenue guide [data_package §6]	2.30%	Price/mix and mini-game/content monetisation outweigh mature subscriptions only modestly.

The base cadence is explicit:

Product	Year 1	Year 2	Year 3	Year 4	Year 5	TTM+5y revenue
Domestic Games	10.0%	9.0%	8.0%	7.0%	6.0%	255.113
International Games	8.0%	8.0%	7.0%	7.0%	6.0%	112.252
Social Networks	1.0%	2.0%	2.5%	3.0%	3.0%	142.609

Domestic growth decelerates gradually rather than collapsing from 17% to a low terminal rate in one year. International starts at 8%, far below the 18.26% historical CAGR and consistent with management's warning; the 7.2% compounded path remains above Newzoo's 5.1% 2025-2028 market CAGR, implying moderate share gain. Social begins at only 1% because Q2 revenue was nearly flat and subscriptions declined, then improves toward 3% as pricing, mini-game economics and ecosystem usefulness contribute.

8.2 Bull case growth assumptions

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Domestic Games	9.84% [data_package §4]	Q2 2026 17% [data_package §5]	Core franchises to grow [data_package §6]	10.99%	Several major franchises compound together, new titles convert engagement, and AI improves content cadence without damaging trust.
International Games	18.26% [data_package §4]	Q2 2026 -0.8% [data_package §5]	Portfolio expansion; acquisitions require separate capital treatment [data_package §6]	12.79%	Existing owned studios and global publishing produce repeated hits; no acquisition revenue plug is included, and growth still steps down from 15% to 10% as scale rises.
Social Networks	2.99% [data_package §4]	Q2 2026 0.8% [data_package §5]	Video and Weixin engagement rising [data_package §6]	4.00%	Better paid conversion, higher-value subscriptions and mini-game/platform services monetise the identity graph.

Product	Year 1	Year 2	Year 3	Year 4	Year 5	TTM+5y revenue
Domestic Games	13.0%	12.0%	11.0%	10.0%	9.0%	292.576
International Games	15.0%	14.0%	13.0%	12.0%	10.0%	144.732
Social Networks	4.0%	4.0%	4.0%	4.0%	4.0%	154.880

The bull case does not carry the 43% Q3 2025 International Games rate forward. Even here, International begins at 15% and falls to 10%, acknowledging premium-release volatility and Newzoo's lower industry base rate. Domestic growth remains below the latest 17% quarter and decelerates every year. Social improves to a steady 4%, but does not approach Video Accounts' engagement growth because advertising monetisation largely sits outside VAS.

8.3 Bear case growth assumptions

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Domestic Games	9.84% [data_package §4]	Q2 2026 17% [data_package §5]	Qualitative growth [data_package §6]	1.18%	Core franchises age, approvals or launches slip, and player spending weakens; scale prevents a permanent collapse.
International Games	18.26% [data_package §4]	Q2 2026 -0.8% [data_package §5]	Deceleration expected [data_package §6]	-1.55%	Late-2025 consolidation and copy-sale benefits reverse, acquired studios underdeliver and no replacement hit arrives until late horizon.
Social Networks	2.99% [data_package §4]	Q2 2026 0.8% [data_package §5]	Engagement, no paid-revenue guide [data_package §6]	-0.82%	Subscription softness, creator competition and compliance constraints overwhelm price/mix for several years.

Product	Year 1	Year 2	Year 3	Year 4	Year 5	TTM+5y revenue
Domestic Games	-2.0%	0.0%	2.0%	3.0%	3.0%	184.205
International Games	-10.0%	-5.0%	0.0%	3.0%	5.0%	73.327
Social Networks	-4.0%	-2.0%	0.0%	1.0%	1.0%	122.171

The bear case is a multi-year content and monetisation failure, not a one-quarter shock followed by instant mean reversion. VAS revenue ends roughly flat to the TTM anchor because the initial declines are only partly repaired. International experiences the sharpest reset because it contains the clearest non-recurring growth warning. Domestic franchises retain some resilience, while Social Networks remains below the anchor as paid content loses wallet share.

8.4 Thesis-consistency and comparable-path check

No product's base forecast extrapolates its strongest recent print. Domestic Games moves from 17% latest-quarter growth to 10% in Year 1, but that is not an implausibly abrupt deceleration: its own three-year CAGR was 9.84%, and quarterly growth has already ranged from 6% to 17%. International Games moves from a -0.8% latest quarter and 18.26% three-year CAGR to 8% in Year 1 because the TTM still contains elevated late-2025 growth. Management explicitly identified the consolidation and upfront-copy distortion. Newzoo's 5.1% global market forecast supplies an external base rate; 7-8% requires execution but is not dependent on another 30-40% surge. Social Networks stays close to its 2.99% historical CAGR and current near-flat revenue growth.

The model rejects two easy but inconsistent stories. First, "AI makes every line grow faster" would double count engagement improvements and ignore shared compute/R&D costs. Second, "all games mature to market growth" would ignore portfolio share gains and Tencent's distribution advantages. Base sits between them: above-market International Games, high-single-digit Domestic Games and low-single-digit Social Networks.

9. Forward Gross profit margin assumptions

9.0 Calibration discipline

Tencent discloses only VAS aggregate gross profit and margin, not product gross margins. To make the bottom-up rollup auditable, this model allocates the TTM margin analytically: 64.0% Domestic Games, 58.0% International Games and 61.314% Social Networks. Applied to the rounded TTM product revenues, those assumptions produce CNY111.168B, CNY45.994B and CNY78.053B of gross profit, exactly CNY235.215B in total. These allocations are **analyst calibration assumptions, not reported historical facts**. Later stages must retain that label.

9.1 Base-case product gross-margin path

Product	Calibrated TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y	Mechanism
Domestic Games	64.0%	64.5%	65.0%	65.5%	66.0%	66.5%	More internally developed content and live-service scale, partly offset by content renewal and channels.
International Games	58.0%	58.5%	59.0%	59.5%	60.0%	60.5%	Owned-IP and studio scale slowly outweigh storefront, royalty and launch costs.
Social Networks	61.314%	60.5%	59.5%	59.0%	58.5%	58.0%	Content and creator costs rise while mature subscription growth limits leverage.
VAS blended	61.85% disclosed	61.96%	62.05%	62.30%	62.55%	62.80%	Faster games growth more than offsets Social Networks compression.

The 95-basis-point blended increase is modest relative to the FY2022-TTM recovery and is caused by mix, not an arbitrary segment-level plug. Domestic and International Games improve as live-service scale and owned content grow. Social Networks compresses because defending content quality and creator supply consumes part of price/mix upside.

9.2 Bull-case product gross-margin path

Product	Calibrated TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y	Mechanism
Domestic Games	64.0%	65.0%	66.0%	67.0%	68.0%	69.0%	High-retention owned franchises and efficient AI-assisted content increase direct-cost leverage.
International Games	58.0%	59.0%	60.0%	61.5%	63.0%	64.5%	Owned studios and favourable platform mix improve economics as the portfolio scales.
Social Networks	61.314%	61.5%	61.5%	61.8%	62.0%	62.0%	Premium subscription mix and algorithmic distribution cover content and creator costs.
VAS blended	61.85% disclosed	62.59%	63.31%	64.24%	65.17%	66.07%	Games mix and product leverage drive the expansion.

The 422-basis-point blended expansion exceeds the 100-basis-point explanation threshold and requires all stated mechanisms: internally owned hits, sustained payer conversion, better international platform/channel economics and no offsetting content-cost inflation. It is deliberately not the base case. Gross margin above 66% is feasible in a games-heavy mix-NetEase disclosed 69.7% for its games segment in 2025-but Tencent VAS also contains lower-visibility social-content economics, so the model stops below that pure-games reference.

9.3 Bear-case product gross-margin path

Product	Calibrated TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y	Mechanism
Domestic Games	64.0%	62.0%	60.5%	59.0%	58.0%	57.0%	Lower payer conversion, weaker title mix and higher partner or acquisition costs.
International Games	58.0%	55.0%	53.0%	51.0%	50.0%	49.0%	Premium-launch misses, storefront fees, royalties and studio under-utilisation.
Social Networks	61.314%	59.0%	57.0%	55.0%	54.0%	53.0%	Content inflation, creator revenue share and compliance friction exceed pricing.

Product	Calibrated TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y	Mechanism
VAS blended	61.85% disclosed	59.62%	57.91%	56.17%	55.18%	54.17%	Adverse mix and direct-cost deleverage compound.

The 768-basis-point decline is severe but still leaves VAS profitable because the segment owns mature digital assets and recurring communities. It represents the combination of revenue stagnation and structurally worse content/channel economics. It does not allocate central R&D, marketing or AI depreciation into the segment; those remain in the statutory bridge schedule for synthesis.

10. Segment rollup - bottom-up reconciliation

10.1 Base case

Base revenue, CNY B	TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y
Domestic Games	173.700	191.070	208.266	224.928	240.673	255.113
International Games	79.300	85.644	92.496	98.970	105.898	112.252
Social Networks	127.300	128.573	131.144	134.423	138.456	142.609
VAS total	380.300	405.287	431.906	458.321	485.026	509.974

Base gross profit, CNY B	TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y
Domestic Games	111.168	123.240	135.373	147.328	158.844	169.650
International Games	45.994	50.101	54.573	58.887	63.539	67.912
Social Networks	78.053	77.789	78.031	79.309	80.997	82.713
VAS **Gross profit**	235.215	251.129	267.976	285.524	303.379	320.276
VAS gross margin	61.85%	61.96%	62.05%	62.30%	62.55%	62.80%

The base revenue sum reconciles exactly from products in every year to displayed precision. The terminal gross-profit sum is CNY169.650B + CNY67.912B + CNY82.713B = CNY320.275B versus CNY320.276B shown, a CNY0.001B display-rounding difference well below 1%. TTM uses the exact sealed CNY235.215B gross-profit anchor.

10.2 Bull case

Bull revenue, CNY B	TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y
Domestic Games	173.700	196.281	219.835	244.017	268.418	292.576
International Games	79.300	91.195	103.962	117.477	131.575	144.732
Social Networks	127.300	132.392	137.688	143.195	148.923	154.880
VAS total	380.300	419.868	461.485	504.689	548.916	592.188

Bull gross profit, CNY B	TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y
Domestic Games	111.168	127.583	145.091	163.492	182.524	201.877
International Games	45.994	53.805	62.377	72.248	82.892	93.352
Social Networks	78.053	81.421	84.678	88.494	92.332	96.026
VAS **Gross profit**	235.215	262.809	292.146	324.234	357.749	391.255
VAS gross margin	61.85%	62.59%	63.31%	64.24%	65.17%	66.07%

The terminal product revenue sum is CNY592.188B and the terminal gross-profit components sum to CNY391.255B to displayed precision. The bull VAS revenue CAGR is 9.26%, driven by 10.99% Domestic Games, 12.79% International Games and 4.00% Social Networks.

10.3 Bear case

Bear revenue, CNY B	TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y
Domestic Games	173.700	170.226	170.226	173.631	178.839	184.205
International Games	79.300	71.370	67.802	67.802	69.836	73.327

Bear revenue, CNY B	TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y
Social Networks	127.300	122.208	119.764	119.764	120.961	122.171
VAS total	380.300	363.804	357.791	361.196	369.636	379.703

Bear gross profit, CNY B	TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y
Domestic Games	111.168	105.540	102.487	102.442	103.727	104.997
International Games	45.994	39.254	35.935	34.579	34.918	35.930
Social Networks	78.053	72.103	68.265	65.870	65.319	64.751
VAS **Gross profit**	235.215	216.896	207.187	202.891	203.964	205.678
VAS gross margin	61.85%	59.62%	57.91%	56.17%	55.18%	54.17%

The bear revenue CAGR is approximately -0.03%, so terminal revenue is essentially flat to the rounded TTM base. Gross profit falls 12.6% over the five years because margin contracts. The terminal product profits sum to CNY205.678B exactly to displayed precision. This is the scenario that tests whether VAS durability is merely revenue resilience or genuine profit resilience.

10.4 Probability-weighted segment diagnostic

Scenario probabilities are 25% Bear, 55% Base and 20% Bull. These are segment modelling weights for synthesis, not security-return probabilities or portfolio instructions. Probability-weighted terminal VAS revenue is CNY493.8B and probability-weighted terminal VAS gross profit is CNY305.8B. Those weighted values are diagnostics, not a fourth scenario: synthesis should retain the three discrete cases and use consistent company-wide probabilities.

11. Key risks and wildcards

- **Domestic franchise fatigue - Bear.** The core portfolio may be broader, but mature franchises can lose relevance or payer intensity. Monitor multi-quarter Domestic Games growth, not launch-week rankings. A sustained shift to negative growth without an identifiable comparison would invalidate the base cadence.
- **International hit and acquisition volatility - Bear/Bull.** Studio purchases can add franchises and reported revenue, yet integration failure, talent departures or weak releases can destroy returns. The model excludes an acquisition plug; a major deal requires a new product and capital bridge rather than being folded into organic growth.
- **Regulatory approvals and monetisation limits - Bear.** Product approvals can delay launches, while youth-protection, virtual-item, livestreaming, content and algorithm rules can restrict monetisation or increase compliance cost. The same regulatory structure that raises barriers to entry can impair Tencent’s own pipeline.
- **App-store and platform economics - Bear/Base.** Higher commissions, storefront rules or dependence on console/mobile gatekeepers can reduce International Games gross margin. Conversely, direct-to-consumer routes or favourable mini-game distribution can support the bull margin path.
- **Content and creator cost inflation - Bear.** Social Networks can retain users yet lose economics if rights owners, performers, studios and developers capture more of revenue. The bear path assumes this pressure persists and takes Social Networks’ analytical margin to 53%.
- **Subscription saturation - Bear/Base.** Latest average daily fee-based VAS subscriptions fell to 259M from 267M at FY2025 [data_package §0a, subscription KPI row]. If price and mix cannot offset declining counts, even the 2.3% base Social Networks CAGR is too high.
- **AI benefit-versus-cost mismatch - Bear/Base.** AI can improve engagement, recommendation and content production, but compute and R&D sit partly outside segment gross profit. A higher VAS gross margin accompanied by structurally weaker group FCF would not prove attractive incremental economics.
- **Mini games and Video Accounts boundary risk - Base/Bull.** Engagement can benefit VAS discovery, while advertising monetisation belongs to Marketing Services and payment/cloud fees can belong to FinTech and Business Services. Synthesis must prevent cross-segment double counting.
- **Creative talent scarcity - Bear/Bull.** Better tools lower some production costs but do not commoditise direction, storytelling, art or live-operations judgment. Retaining key teams is a prerequisite for the bull international scenario.

- **Macroeconomic wallet pressure - Bear.** Gaming and paid content are low-ticket entertainment but discretionary at the margin. Consumer weakness can lower payer conversion and ARPPU before it visibly reduces MAU.
- **Foreign exchange and geopolitical access - Bear.** International Games reports in CNY but earns across currencies and jurisdictions. Store access, data localisation, sanctions, national-security reviews and local content rules can restrict launches or acquisitions. FX is handled in consolidation, not by changing this segment's CNY revenue arithmetic.
- **Measurement opacity - All cases.** Tencent does not disclose product gross margins, game payer data, title concentration, VAS ARPPU or a reconciled split of Social Networks economics. The analytical product-margin allocation is therefore a model, not a reported fact. A reviewer should challenge the allocation if new issuer disclosure becomes available.

Segment summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	CNY379.703B	Gross profit	54.17%	CNY205.678B	25%
Base	CNY509.974B	Gross profit	62.80%	CNY320.276B	55%
Bull	CNY592.188B	Gross profit	66.07%	CNY391.255B	20%

The base case assumes a durable but maturing consumer-entertainment compounder: strong domestic games, above-market international share gain and slow Social Networks monetisation, with only modest mix-led gross-margin expansion. The bull case requires repeated franchise execution and much better owned-content economics. The bear case is deliberately harsh on product relevance and direct costs, leaving revenue flat and gross profit below the TTM anchor. Corporate expenses, statutory operating-income bridge items, below-line results, capex, dilution, valuation, portfolio fit and trade decisions are outside this segment appendix.

FinTech and Business Services - Segment Deep Dive

Company: Tencent Holdings (`0700.HK`) **Information date:** 2026-09-09 **TTM anchor:** 2026-06-30 **TTM+5y horizon:** 2031-06-30, exactly 5.0 calendar years **Reporting currency:** CNY **Exact segment profit basis: Gross profit Research only:** `trade_execution_authorized=false`

0. Segment boundary and taxonomy note

Tencent's FinTech and Business Services perimeter is economically stable across FY2021-FY2025. It includes commercial payments, wealth-management and consumer-loan services, cloud services, WeCom, and e-commerce technology. The FY2024 renaming of Online Advertising to Marketing Services did not move this segment's economic perimeter, while the FY2023 restatement of investment-related items affected the consolidated statutory operating-profit presentation rather than the FinTech and Business Services revenue/gross-profit history. The five-year segment series is therefore comparable on the issuer's disclosed revenue and **Gross profit** basis, but not on a fabricated segment operating-income basis. [data_package §1, taxonomy rows 71 and 77; taxonomy flags rows 83-86]

1. What this segment actually is

FinTech and Business Services is Tencent's transaction and enterprise-infrastructure layer. It monetises the commercial activity that flows through Weixin/WeChat and serves businesses that need cloud compute, databases, security, communications software, and increasingly AI model or agent services. The segment contains two broad economic engines whose unit economics are different even though Tencent reports them together.

The FinTech engine starts with payments. Consumers fund or link wallets and use Weixin Pay in online and offline transactions; merchants accept those payments and pay service fees under regulated schedules and negotiated acquiring economics. Tencent also earns revenue from wealth-management distribution, consumer-credit facilitation and related financial-technology services. The customer set therefore spans consumers, merchants, financial institutions and channel partners. The platform's go-to-market is embedded rather than sales-led: payment is native to social messaging, Mini Programs, Mini Shops and merchant workflows, while financial products can be distributed inside the same high-frequency interface. Pricing is constrained by regulation, merchant bargaining and competition with Alipay, banks and UnionPay. Growth consequently depends more on transaction value, merchant mix and attach of higher-value financial services than on unconstrained take-rate increases.

The Business Services engine sells cloud and enterprise technology. Products include infrastructure compute and storage, databases, security, networking, communication/collaboration through WeCom, industry solutions, e-commerce technology, and AI-related services such as model-as-a-service and WorkBuddy. Customers pay through usage, capacity, subscription, token consumption or project contracts. The go-to-market combines direct enterprise selling, channel partners and ecosystem pull from companies already building on Weixin, Mini Programs or Tencent's media and gaming infrastructure. Unlike consumer payment, this engine can grow rapidly from workload migration, AI inference and international demand, but it also bears heavier compute, depreciation, bandwidth, implementation and sales costs.

Tencent does not disclose the revenue split among payments, wealth, loans, cloud, WeCom and e-commerce technology. It also does not disclose payment volume, cloud ARR, remaining performance obligations or a consistent product-level gross-profit schedule. The only dollar-authoritative perimeter is the reported aggregate segment. [data_package §4, product row 237; §10, data-gap rows 391-392]

2. Current economics

FY2025 segment revenue was CNY229.435B, 30.52% of group revenue, up 8.2% year on year. FY2025 **Gross profit** was CNY116.616B and gross margin was 50.83%. [data_package §1, row 77; §3, rows 148-151] The latest four disclosed quarters - Q3 2025, Q4 2025, Q1 2026 and Q2 2026 - sum to a TTM revenue anchor of CNY239.163B. This is a mechanical sum of CNY58.174B, CNY60.818B, CNY59.885B and CNY60.286B from the DR-cleared package, not a new external historical pull. [data_package §5, rows 265, 269, 273 and 277] The QFR-sealed bridge records TTM **Gross profit** of CNY122.665B, implying a 51.29% TTM gross margin. [data_package §3a, row 194; statutory_bridge.json, TTM FinTech and Business Services line]

The most recent quarter, Q2 2026, delivered CNY60.286B of revenue, 9% year-on-year growth and a 52.1% gross margin. Q1 2026 was also 9% growth and 52.1% gross margin. Q4 2025 and Q3 2025 were 8%/50.7% and 10%/50.2%, respectively. [data_package §5, rows 265, 269, 273 and 277] That pattern matters: growth has been stable around high single digits while

gross margin has continued to rise. The current earnings story is therefore more about mix and quality than a sudden reacceleration of the entire reported segment.

Within the segment, official disclosure provides only growth language. Business Services grew in the teens in Q3 2025, 22% in Q4 2025 and 20% in Q1 2026; Q2 was described as cloud-led without a separate rate. FinTech Services was described as high-single-digit growth in Q3 and then by payments/wealth/loans drivers without exact rates. Commercial payment volume improved directionally but lacks a disclosed comparable percentage, and Mini Shops GMV was described as rapidly growing without an absolute base. [data_package §4, rows 249-253] These disclosures support a faster Business Services engine and slower, steadier FinTech engine, but they do not support historical product dollars or exact product shares.

Capital intensity is asymmetric. Payments and distribution services chiefly require software, risk management, compliance and ecosystem maintenance, while cloud and AI need servers, accelerators, networking, data centres, prepayments and depreciation. Tencent does not allocate segment capex. Group issuer-defined capex reached CNY79.198B in FY2025 and CNY84.720B in H1 2026; Q2 capex rose 176% year on year to CNY52.8B, while reported free cash flow was negative CNY13.8B after capex, content/lease payments and AI-compute prepayments. [data_package §7, FY2025 row and following note; §5, row 287] Consequently, segment gross profit can improve while group free cash flow temporarily deteriorates. A gross-margin forecast is not a complete statement of capital economics.

There is no issuer-disclosed ARR, paid-seat count, payment volume, cloud RPO, cloud revenue, product utilisation or FinTech-versus-cloud dollar split in the DR-cleared package. [DATA GAP: Tencent does not separately disclose FinTech and Business Services product revenue, payment volume, cloud ARR/RPO, or segment capex; the forecast therefore uses an explicitly identified analytical driver decomposition that is tied back to the reported aggregate and is not represented as issuer history.]

3. Unit economics

FinTech Services

Payment revenue is a small fee applied to very large transaction flows. Gross profit is revenue less payment-processing, channel, bank, clearing, fraud, incentive and service costs. The core economic variables are commercial payment volume, the proportion of higher-monetisation commercial transactions, merchant-category mix, fee and subsidy levels, losses/fraud, and the cost of compliance. Wealth management and loan facilitation add distribution or service revenue with less payment-network cost but more risk-control, funding-partner and regulatory requirements.

The Weixin ecosystem reduces customer-acquisition cost because users and merchants already transact in messaging, Mini Programs and commerce surfaces. That density is the principal reason FinTech economics can be attractive even under regulated pricing. A merchant rarely integrates payment in isolation; it also manages storefronts, customer communication, advertising and fulfilment. Each added workflow can reduce churn. Yet the apparent network benefit does not mean unlimited take-rate power. Merchants can dual-home across Weixin Pay, Alipay, bank rails and UnionPay, while Chinese regulation explicitly seeks fair competition and customer protection.

FinTech gross margin rises when payment volume recovers without equivalent incentives, higher-quality wealth/loan revenue grows faster, loss and fraud rates remain controlled, or merchant servicing becomes more automated. It falls when consumption weakens, lower-fee categories dominate, merchant subsidies intensify, compliance costs rise, or regulators constrain monetisation and data use. Management’s wording - payments saw “measured improvement” while the consumption recovery remained “pretty nascent” - argues against extrapolating a macro boom. [data_package §6, rows 323-324]

Business Services

Cloud revenue converts to gross profit after compute hardware depreciation, data-centre and network costs, purchased capacity, support, software licences, implementation, and traffic acquisition. Utilisation and product mix are decisive. Commodity infrastructure and customised projects can be low-margin, especially when discounts are used to win workloads. Databases, security, communications software, AI platforms and standardised recurring products can carry higher incremental margins once fixed R&D and infrastructure are absorbed.

Tencent has been pruning or deprioritising lower-quality revenue and leaning into profitable cloud growth. The result is visible in the aggregate segment: gross margin rose from 29.85% in FY2021 to 50.83% in FY2025 and 51.29% on the TTM anchor. [data_package §3, rows 150-151; §3a, row 194] Management attributes recent expansion to a “positive mix shift toward higher-quality revenue.” It also raised cloud prices and reduced discounts in May 2026, saying it had “increased prices across

the board." [data_package §6, rows 325 and 327] These are concrete mechanisms: more standardised and AI-related revenue, less loss-making resale/project work, higher realised price and better infrastructure utilisation.

AI complicates the margin path. Paid WorkBuddy and model-as-a-service tokens were described as having margin "already comparable" to Tencent Cloud, but free users dilute current economics. Cash receipts can precede recognised subscription revenue, so near-term reported growth may lag bookings or cash. [data_package §6, rows 328-329] Meanwhile, model-building compute was framed as concentrated in "this year and next year," which points to a 2026-27 investment hump rather than cost-free AI monetisation. [data_package §6, row 330] Gross margin could expand through price, mix and utilisation even while capex, depreciation and prepayments pressure group cash conversion.

The consolidated segment margin bridge

The five-year gross-margin rise of 2,098 basis points - 29.85% in FY2021 to 50.83% in FY2025 - is too large to treat as ordinary fixed-cost leverage. It reflects a deliberate quality reset: less low-margin cloud activity, more higher-margin services, improved pricing and operating efficiency, and better revenue mix. The last four quarters show that the reset has not obviously reversed, but the pace has slowed as the base approaches the low-50s.

The sealed bridge's **Gross profit** is additive across reportable segments. Selling and marketing, general and administrative expense and other gains/losses are corporate/unallocated bridge lines and must be projected once by synthesis; they are not inserted into this segment's product margins. [data_package §3a, rows 197-210] This appendix therefore does not call gross profit "operating income," allocate AI R&D below gross profit to the segment, or make claims about a segment operating margin that Tencent does not disclose.

4. Competitive dynamics

Payments and financial technology

The direct payment competitors are Alipay, UnionPay and bank-led mobile/payment rails; Douyin and other ecosystems add pressure at the commerce edge. The competitive structure is not a simple winner-take-all market. Consumers and merchants can use multiple wallets, but each wallet gains utility from installed user density, merchant acceptance, identity, trust and integration into daily workflows. Weixin Pay's strategic advantage is embedded distribution inside China's dominant social and Mini Program ecosystem. Alipay's advantage is a deeply developed commerce and financial-services ecosystem. Banks and UnionPay retain access to regulated settlement infrastructure and can price aggressively.

No comparable current market-share percentage for Weixin Pay is supplied by the DR-cleared package, and official competitor disclosures do not provide a like-for-like share measured on the same transaction perimeter. [DATA GAP: Comparable current Weixin Pay transaction-value market share is not disclosed in the cleared Tencent package; no unsupported third-party percentage is inserted.] The useful competitive conclusion is qualitative: Weixin Pay is one of the two scaled consumer-wallet ecosystems, but merchant dual-homing limits fee power.

Regulation is both a barrier and a ceiling. China's State Council rules require non-bank payment institutions to be licensed, conduct customer and merchant due diligence, protect customer reserves and information, process cooperative payment activity through designated clearing institutions, and maintain risk controls. The rules took effect on 1 May 2024. [State Council Regulation on the Supervision and Administration of Non-bank Payment Institutions](https://app.www.gov.cn/govdata/gov/202312/17/510339/article.html) Compliance scale and trusted operations favour incumbents, yet fee, data, capital and conduct requirements constrain monetisation. In other words, regulation strengthens the moat around safe infrastructure while reducing the likelihood of unconstrained take-rate expansion.

Cloud, enterprise software and AI services

Tencent Cloud competes with Alibaba Cloud, Huawei Cloud, Baidu AI Cloud, state-owned telecom clouds and specialised software vendors. Alibaba's FY2025 annual filing described it as China's largest public-cloud provider by 2024 revenue, citing IDC, and reported Cloud Intelligence adjusted EBITA of CNY10.556B, up 72% as public-cloud growth and efficiency improved. [Alibaba FY2025 annual filing](https://www.hkexnews.hk/listedco/listconews/sehk/2025/0626/2025062601064.pdf) By the March 2026 quarter, Alibaba reported Cloud Intelligence revenue growth of 36% and a tenth consecutive quarter of triple-digit AI-product growth, illustrating both strong category demand and a formidable scaled competitor. [Alibaba March 2026 results](https://www.alibabagroup.com/en-US/document-1971445322303406080)

Baidu's Q4/FY2025 release reported CNY5.8B of Q4 AI Cloud Infrastructure revenue and 143% growth in subscription-based AI accelerator-infrastructure revenue. [Baidu FY2025 results](https://ir.baidu.com/news-releases/news-release-details/baidu-a

nnounces-fourth-quarter-and-fiscal-year-2025-results/) These competitor signals support a structural AI-cloud tailwind, but also warn that demand does not automatically accrue to Tencent. Hyperscalers can subsidise capacity, compete on model ecosystems and compress infrastructure pricing.

Tencent's differentiated wedge is workload adjacency rather than outright infrastructure leadership. It understands traffic, media, gaming, communication and commerce workloads at very large scale; it can sell to companies already operating in Weixin; and it can package payment, Mini Program, WeCom, security and AI services. This makes Tencent particularly relevant in consumer-internet, gaming, media, retail and social-commerce use cases. However, customers with multi-cloud strategies can shift commodity compute, and large enterprises may favour Alibaba, Huawei, a telecom provider or in-house infrastructure for sovereignty, procurement or technical reasons.

Pricing power is therefore bifurcated. Tencent can raise price where a service is differentiated, integrated or capacity constrained, as the May 2026 pricing action shows. It has much less power in commodity compute and basic storage. The moat depends on moving the revenue mix toward higher-value managed services, data, security, agents and ecosystem-native software faster than competitors commoditise the infrastructure layer.

5. Moat at the segment level

The segment has a real but uneven moat. FinTech's strongest protection is a two-sided transaction network embedded in a high-frequency communication platform. Users, merchants, Mini Programs, identities and behavioural context reinforce acceptance and convenience. The distribution advantage lowers customer-acquisition cost and creates practical switching friction for merchants whose customer service, promotion and checkout flows are built into Weixin. Trust, fraud controls, compliance capability and continuous availability add operational barriers that a new entrant cannot reproduce quickly.

That moat is durable over five to ten years if Tencent keeps Weixin central to commerce and maintains regulatory trust. It is not equivalent to monopoly pricing. Users can keep more than one wallet, merchants can dual-home and regulators can determine product, data and fee boundaries. The moat protects participation and cost position more reliably than it protects take rate.

Business Services has a narrower moat. Scale infrastructure, proprietary technical know-how and ecosystem distribution matter, but cloud compute is contestable and capital intensive. Tencent's best-defended workloads are those connected to Weixin, gaming, media, communications and commerce data. WeCom plus Mini Programs plus payment plus cloud can form a differentiated bundle; raw virtual machines cannot. AI agents such as WorkBuddy may deepen workflow integration, yet model capability diffuses quickly and competitors have more disclosed cloud scale.

The durability test is whether Tencent converts ecosystem access into recurring, standardised, high-margin enterprise products without subsidising commodity infrastructure. The segment's gross-margin trajectory suggests meaningful progress. Still, the moat rating should be "strong in ecosystem distribution, moderate in cloud infrastructure, uncertain in frontier AI products." A blended company moat would be overstated if it assumed Tencent Cloud enjoys the same network effects as Weixin Pay.

6. Historical growth rates - reproduced from the data package

Tencent does not disclose product-level revenue for payments, wealth, loans, cloud, WeCom or e-commerce technology. The finest dollar-disclosed historical line is the reported FinTech and Business Services segment. No product dollars are back-solved in the historical table.

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	Three-year-span CAGR	Most recent FY YoY	Data-package cite
FinTech and Business Services aggregate	CNY203.763B [§3 row 148]	CNY211.956B [§3 row 148]	CNY229.435B [§3 row 148]	6.10% [calculated from §3 row 148]	8.2% [§3 row 149]	data_package §3, FinTech table revenue/YoY rows 148-149
FinTech Services	Not separately disclosed [§4 row 237]	Not separately disclosed [§4 row 237]	Not separately disclosed [§4 row 237]	Not calculable [§4 row 237]	High-single-digit language, no exact rate [§4 row 250]	data_package §4, rows 237 and 250
Business Services	Not separately disclosed [§4 row 237]	Not separately disclosed [§4 row 237]	Not separately disclosed [§4 row 237]	Not calculable [§4 row 237]	22% in Q4 2025; 20% in Q1 2026 [§4 row 249]	data_package §4, rows 237 and 249

Specific primary-source mapping for all historical figures above and in Sections 2-3: annual segment revenue and **Gross profit** come from Tencent AR2021-AR2025 Note 6/MD&A; Q3 2025, Q4 2025, Q1 2026 and Q2 2026 figures come from Q3R25, FYR25, Q1R26 and Q2R26/IR2026 Note 6, respectively. The DR-cleared data-package rows cited in the table

preserve those exact source identifiers and are the controlling normalized transcription.

The “three-year-span CAGR” uses the two compounding intervals from FY2023 to FY2025: `(229.435 / 203.763)^(1/2) − 1 = 6.10%`. This naming convention is explicit because three observations contain two year-to-year intervals. The segment’s longer FY2021-FY2025 revenue CAGR was 7.44%, calculated from the same DR-cleared row, but it includes the post-pandemic/payment normalisation and cloud-quality reset. [data_package §3, row 148]

The historical arithmetic checks pass within the required 2% tolerance: CNY203.763B × 1.040 = CNY211.914B versus disclosed CNY211.956B, a 0.02% residual caused by the rounded 4.0% growth rate; and CNY211.956B × 1.082 = CNY229.336B versus CNY229.435B, a 0.04% residual. No smoothing is applied.

Profit grew much faster than revenue. **Gross profit** increased from CNY80.636B in FY2023 to CNY99.701B in FY2024 and CNY116.616B in FY2025, a 20.25% CAGR across the two intervals. Gross margin rose from 39.57% to 47.04% and 50.83%. [data_package §3, rows 150-151] This divergence is the central economic fact: Tencent improved revenue quality and mix rather than maximising low-margin volume.

The latest-quarter table gives another arithmetic consistency check. Q3 2025 through Q2 2026 revenue totals CNY239.163B. TTM **Gross profit** in the sealed bridge is CNY122.665B, so the TTM gross margin is 51.29%. The four quarterly margins of 50.2%, 50.7%, 52.1% and 52.1% are directionally consistent with that weighted result. [data_package §5, rows 265, 269, 273 and 277; §3a row 194]

7. Management guidance - from data-package Section 6

Tencent has not issued a numeric FY+1 segment-revenue or gross-margin guide. The eight relevant statements in the cleared package are directional anchors, not a point forecast.

- **Payments - Q3 FY2025 call dated 2025-11-19, James Mitchell, data_package §6 row 323:** “there is a measured improvement.” This supports continued payment-volume recovery, but the adjective “measured” is inconsistent with a sudden double-digit macro acceleration.

- **Consumption - Q3 FY2025 call dated 2025-11-19, Chi Ping Lau, row 324:** “improvement is still pretty nascent.” Management explicitly required more evidence before calling a durable consumption trend. The base case therefore fades FinTech growth toward mid-single digits rather than treating recovery as complete.

- **Margins - Q3 FY2025 call dated 2025-11-19, James Mitchell, row 325:** “positive mix shift toward higher-quality revenue.” This is the strongest anchor for continued gross-margin progress. The mechanism is quality and mix, not an assumed segment operating-cost allocation.

- **Business Services - Q1 FY2026 release dated 2026-05-13, Tencent management, row 326:** “Business Services revenues rose by 20%.” The statement confirms a faster engine inside the aggregate segment, but a single-quarter rate is not a full-cycle CAGR and no Business Services dollar base is disclosed.

- **Cloud pricing - Q2 FY2026 call dated 2026-08-12, James Mitchell, row 327:** “increased prices across the board.” Management tied the May action to higher prices/lower discounts. It supports near-term realised-price improvement, but the persistence depends on customer retention and competitive response.

- **Paid-token margin - Q2 FY2026 call dated 2026-08-12, James Mitchell, row 328:** “already comparable.” Paid WorkBuddy/model-as-a-service usage had margin comparable to Tencent Cloud; free users remained dilutive. The statement supports eventual mix improvement, not software-like gross margins today.

- **WorkBuddy cash receipts - Q2 FY2026 call dated 2026-08-12, James Mitchell, row 329:** “substantial ramp in the cash receipts.” Subscription accounting can defer recognised revenue relative to cash. The base cadence allows Business Services to stay above segment growth without recognising the full cash acceleration immediately.

- **AI capex - Q2 FY2026 call dated 2026-08-12, Chi Ping Lau, row 330:** “this year and next year.” The largest model-building compute phase is framed as 2026-27. That supports later utilisation leverage, while warning that group cash conversion and depreciation can remain pressured in the first two forecast years.

[DATA GAP: No numeric FY+1 FinTech and Business Services revenue, product revenue, gross-margin or payment-volume guidance is disclosed in data_package §6; all scenario paths are analyst assumptions bounded by the disclosed aggregate and directional comments.]

8. Forward growth assumptions - explicit and non-uniform

Modeling perimeter and analytical split

The forecast starts from the one authoritative TTM dollar line: CNY239.163B of reported FinTech and Business Services revenue. To satisfy a bottom-up driver test without misrepresenting issuer disclosure, the model uses a clearly labelled **analytical allocation** of 85% FinTech Services and 15% Business Services at the TTM anchor: CNY203.289B and CNY35.874B. These are not disclosed historical product revenues. They are a forward-model calibration only, not a uniquely inferred mix: an 85% line growing 8% and a 15% line growing 15% produces about 9.05% aggregate growth, while using the disclosed 20% Business Services rate would produce about 9.8%. The split is therefore a mid-range calibration to the varying quarterly language, not evidence of the actual product shares.

This allocation is not treated as evidence. It is a transparent assumption that can be replaced when Tencent discloses a product split. At the base growth paths below, moving the starting Business Services share from 15% to 10% lowers terminal segment revenue to CNY332.012B, while moving it to 20% raises terminal revenue to CNY344.005B. The central CNY338.009B result therefore has about ±1.8% mix-allocation sensitivity across a broad 10%-20% starting range. That bounded sensitivity is preferable to hiding the necessary decomposition.

The forecast does not extrapolate one CAGR mechanically. Each year has a different product growth rate. The first year reflects current momentum; later years fade for scale, saturation and competitive intensity. All CAGRs are measured exactly from the TTM ended 2026-06-30 to 2031-06-30.

Base case assumptions

Product	Three-year historical CAGR	Latest YoY	Management FY+1 guide	Base CAGR TTM to TTM+5y	Justification
FinTech Services	Not disclosed separately	High-single-digit language in Q3; later exact rate not disclosed	No numeric guide; payments “measured improvement”	6.00%	Starts at 7.0% and fades to 5.0%. Ecosystem depth and modest consumption recovery support growth, while regulation, dual-homing and payment maturity prevent sustained high-single-digit extrapolation.
Business Services	Not disclosed separately	22% Q4 2025; 20% Q1 2026; Q2 cloud-led without rate	No numeric guide; price increases and cash-receipt ramp	12.96%	Starts at 17% and fades to 9%. AI, cloud pricing, international demand and WorkBuddy support growth, but Alibaba/Baidu competition and a larger base force deceleration.
Reported segment aggregate	6.10% FY2023-FY2025	9% in both Q1 and Q2 2026	No numeric segment guide	7.16%	Faster Business Services mix lifts the segment above its recent historical CAGR, while the much larger FinTech engine keeps the result below current Business Services growth.

The base case applies annual growth rates of 7.0%, 6.5%, 6.0%, 5.5% and 5.0% to FinTech Services. It assumes payment volume and financial-service penetration improve modestly, then fade as consumer payments mature. The Business Services path is 17%, 15%, 13%, 11% and 9%. It is below Q1’s 20% at inception because Q2 lacked a comparable rate and because competitors are also accelerating AI-cloud investment. The fade is not abrupt: it declines two percentage points per year, consistent with a scaling cloud business rather than a cliff.

Base-case revenue cadence, CNY B	TTM anchor	Year 1	Year 2	Year 3	Year 4	Year 5
FinTech Services analytical line	203.289	217.519	231.657	245.557	259.063	272.016
Business Services analytical line	35.874	41.973	48.269	54.544	60.544	65.993
Reported segment reconstruction	239.163	259.492	279.927	300.101	319.606	338.009

Bull case assumptions

Product	Three-year historical CAGR	Latest YoY	Management FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
FinTech Services	Not disclosed separately	High-single-digit language in Q3; later exact rate not disclosed	No numeric guide; nascent consumption improvement	8.20%	Runs 9%, 9%, 8%, 8%, 7% as Mini Shops, merchant tools and financial-service attach deepen. Regulatory discipline remains intact, but ecosystem commerce produces more transactions.
Business Services	Not disclosed separately	22% Q4 2025; 20% Q1 2026; Q2 cloud-led without rate	No numeric guide; broad price rise and WorkBuddy cash ramp	17.97%	Runs 22%, 20%, 18%, 16%, 14%. Paid AI usage scales, capacity constraints ease and ecosystem-native workloads offset cloud commoditisation.
Reported segment aggregate	6.10% FY2023-FY2025	9% in both Q1 and Q2 2026	No numeric segment guide	9.90%	Both engines execute, and the faster Business Services line gains mix. The aggregate remains well below the initial Business Services rate because FinTech is much larger.

The bull case requires evidence beyond generic AI enthusiasm. Payment growth must remain near high single digits despite a mature market; Mini Shops and merchant ecosystems must translate engagement into commercial volume; and financial services must gain attach without provoking adverse regulation. Business Services must sustain current approximately 20% momentum through pricing, international demand and paid agents, then decelerate gradually as it scales. The path is 22%, 20%, 18%, 16% and 14%, not 20% forever.

Bull-case revenue cadence, CNY B	TTM anchor	Year 1	Year 2	Year 3	Year 4	Year 5
FinTech Services analytical line	203.289	221.585	241.527	260.849	281.717	301.437
Business Services analytical line	35.874	43.767	52.520	61.974	71.890	81.954
Reported segment reconstruction	239.163	265.351	294.047	322.823	353.607	383.392

Bear case assumptions

Product	Three-year historical CAGR	Latest YoY	Management FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
FinTech Services	Not disclosed separately	High-single-digit language in Q3; later exact rate not disclosed	No numeric guide; consumption recovery “nascent”	3.50%	Runs 3%, 3%, 3.5%, 4%, 4%. Weak consumption, fee pressure and compliance cost reduce monetisation; the Weixin network still prevents outright decline.
Business Services	Not disclosed separately	22% Q4 2025; 20% Q1 2026; Q2 cloud-led without rate	No numeric guide; paid-token margin comparable but free users dilute	5.99%	Runs 8%, 7%, 6%, 5%, 4%. Price increases meet churn, competitors subsidise AI compute and free-agent usage converts slowly.
Reported segment aggregate	6.10% FY2023-FY2025	9% in both Q1 and Q2 2026	No numeric segment guide	3.89%	The segment avoids contraction because payments are embedded and enterprise workloads persist, but both engines fall below historical momentum.

The bear case is deliberately not a uniform haircut. FinTech drops immediately to 3% because consumer weakness and pricing constraints appear quickly, then recovers slightly as nominal spending and digital penetration resume. Business Services starts at 8% despite the recent 20%-plus signals because cloud price rises provoke churn and the AI market becomes capacity-rich; it then fades to 4% as commoditisation overwhelms mix benefits. Its analytical gross margin still rises temporarily from 35.93% to 37.0% in Year 1 because the May 2026 pricing/mix action carries into the first forecast year, but the benefit then reverses as churn, excess capacity and free-agent dilution dominate. This is the scenario in which management's current cloud-pricing action proves cyclical rather than structural.

Bear-case revenue cadence, CNY B	TTM anchor	Year 1	Year 2	Year 3	Year 4	Year 5
FinTech Services analytical line	203.289	209.387	215.669	223.217	232.146	241.432
Business Services analytical line	35.874	38.744	41.457	43.944	46.141	47.987
Reported segment reconstruction	239.163	248.132	257.125	267.161	278.287	289.419

Thesis-consistency check

The largest disclosed sub-engine growth rate is Business Services at 20% in Q1 2026 and 22% in Q4 2025. The base path moves from 17% to 15%, 13%, 11% and 9%, a gradual eight-point deceleration over five annual steps. That is defensible because the competitive benchmarks are themselves strong: Alibaba reported 36% Cloud Intelligence growth in the March 2026 quarter, while Baidu reported rapid AI-cloud infrastructure growth. The model therefore does not assume Tencent slows because "maturation generally"; it assumes the initial growth rate is lower than the best competitors because Tencent's reported business includes a smaller cloud base and because customer reaction to price increases is not yet proven, then fades as AI capacity broadens and infrastructure commoditises.

The bull path keeps Business Services at 14% even in Year 5 and is the case most exposed to sustained AI adoption. The bear path begins at 8%, a sharp but explicit downside tied to price elasticity, subsidised competing capacity and slow conversion from free to paid agents. FinTech's case dispersion is narrower because the payment network is mature and regulated: the range is 3.5%-8.2% CAGR, compared with 6.0%-18.0% for Business Services.

9. Forward Gross profit margin assumptions

Tencent discloses **Gross profit**, not segment operating income. The TTM anchor is CNY122.665B of **Gross profit** on CNY239.163B of revenue, a 51.29% gross margin. [data_package §3a row 194; §5 rows 265, 269, 273 and 277] Corporate/unallocated selling and marketing, general and administrative expense, other gains/losses and below-line items remain outside this appendix.

Because product gross margins are not disclosed, the analytical TTM allocation is calibrated to the sealed total: FinTech Services is assigned a 54.00% analytical gross margin and Business Services a 35.9286% analytical gross margin. Applied to the 85%/15% analytical revenue split, they produce CNY122.665B exactly before display rounding. These are model mechanics, not management disclosure. The lower Business Services starting margin reflects compute, depreciation, bandwidth, support and implementation intensity; the higher FinTech margin reflects scalable transaction software and financial-service distribution, while still allowing bank, channel, fraud and compliance costs.

Case	Product	TTM analytical Gross profit margin	TTM+5y Gross profit margin	Change	Specific mechanism
Bear	FinTech Services	54.00%	50.00%	-400 bps	Merchant fee pressure, weaker category mix, subsidies and higher compliance/fraud costs.
Bear	Business Services	35.93%	34.00%	-193 bps	Price rises cause churn, AI capacity is underutilised and free-agent usage converts slowly.
Base	FinTech Services	54.00%	57.00%	+300 bps	Wealth/loan and higher-quality payment mix, automation and stable network costs.
Base	Business Services	35.93%	48.00%	+1,207 bps	Cloud price/mix improvement, pruning of low-quality work, paid AI services and utilisation leverage.

Case	Product	TTM analytical Gross profit margin	TTM+5y Gross profit margin	Change	Specific mechanism
Bull	FinTech Services	54.00%	59.00%	+500 bps	Strong commercial-payment mix, high attach of financial services and limited incremental acquisition cost.
Bull	Business Services	35.93%	54.00%	+1,807 bps	Recurring software/agent mix, pricing retention and very high utilisation after the 2026-27 compute build.

The Business Services margin change is the largest judgment in the model. The base case's 12.1-point expansion is not justified by fixed-cost leverage alone. It requires four linked events: Tencent retains customers after price increases; low-quality customised/resale revenue stays pruned; paid AI and standardised products become a larger share; and the accelerated compute base achieves utilisation. The aggregate segment's prior 20.98-point FY2021-FY2025 margin increase shows that large mix changes have occurred, but it does not guarantee another comparable step. [data_package §3, row 151]

The annual paths are non-uniform. Base Business Services margin moves 39%, 41%, 43.5%, 46% and 48%. The first-year jump is front-loaded by the May 2026 price increase and prior pruning; subsequent gains require utilisation to absorb the 2026-27 compute build and are therefore execution-sensitive rather than automatic. Base FinTech margin rises more slowly from 54.5% to 57%. Bull margins improve faster as paid AI scales and infrastructure fills. Bear Business Services margin briefly rises to 37% on carried-over pricing/mix, then declines as pricing retention and utilisation disappoint.

Case and product Gross profit margin	Year 1	Year 2	Year 3	Year 4	Year 5
Bear FinTech Services	53.0%	52.0%	51.0%	50.5%	50.0%
Bear Business Services	37.0%	36.0%	35.0%	34.5%	34.0%
Base FinTech Services	54.5%	55.2%	55.8%	56.4%	57.0%
Base Business Services	39.0%	41.0%	43.5%	46.0%	48.0%
Bull FinTech Services	55.0%	56.0%	57.0%	58.0%	59.0%
Bull Business Services	42.0%	45.0%	48.0%	51.0%	54.0%

The base blended margin rises from 51.29% to 55.24%, or 395 basis points. The improvement comes from within-product margin expansion; faster growth of the lower-margin Business Services line is a partial mix drag even as that line converges toward the segment average. The bull blended margin reaches 57.93%, while the bear falls to 47.35%. Because no product-level margin history is disclosed, the 48% base and 54% bull Business Services endpoints remain high-sensitivity analytical assumptions: failure of the reported segment gross margin to hold above 52% after the 2026-27 compute build would invalidate the expansion path rather than justify a mechanical extension. These outcomes remain gross margins. They do not capture below-gross-profit AI R&D, selling expense, general administration, depreciation classified outside cost of revenue, or capital outlays; synthesis must handle those once through the sealed statutory bridge.

10. Segment rollup - bottom-up and reconciled

The rollup multiplies each analytical product line's revenue by its scenario-specific **Gross profit** margin and sums the results. The TTM analytical split is permitted only as forward-model mechanics; the published historical total remains Tencent's aggregate. All displayed differences are rounding. Unrounded calculations reconcile exactly.

Bear rollup, CNY B	TTM anchor	Year 1	Year 2	Year 3	Year 4	TTM+5y
FinTech Services revenue	203.289	209.387	215.669	223.217	232.146	241.432
Business Services revenue	35.874	38.744	41.457	43.944	46.141	47.987
Segment revenue	239.163	248.132	257.125	267.161	278.287	289.419
Blended Gross profit margin	51.29%	50.50%	49.42%	48.37%	47.85%	47.35%
Segment Gross profit	122.665	125.311	127.072	129.221	133.152	137.031

Bear terminal arithmetic: CNY241.432B × 50.0% = CNY120.716B; CNY47.987B × 34.0% = CNY16.316B; total **Gross profit** = CNY137.031B after unrounded calculation. Revenue sums to CNY289.419B. The product-to-segment revenue and profit residuals are below 0.01%, well inside the 1% tolerance.

Base rollup, CNY B	TTM anchor	Year 1	Year 2	Year 3	Year 4	TTM+5y
FinTech Services revenue	203.289	217.519	231.657	245.557	259.063	272.016
Business Services revenue	35.874	41.973	48.269	54.544	60.544	65.993
Segment revenue	239.163	259.492	279.927	300.101	319.606	338.009
Blended Gross profit margin	51.29%	51.99%	52.75%	53.56%	54.43%	55.24%
Segment Gross profit	122.665	134.917	147.665	160.747	173.961	186.726

Base terminal arithmetic: CNY272.016B × 57.0% = CNY155.049B; CNY65.993B × 48.0% = CNY31.677B; total **Gross profit** = CNY186.726B. Revenue sums to CNY338.009B. The segment revenue CAGR is 7.16% and **Gross profit** CAGR is 8.77%, so the profit outcome is driven by both revenue growth and 395 basis points of blended margin expansion.

Bull rollup, CNY B	TTM anchor	Year 1	Year 2	Year 3	Year 4	TTM+5y
FinTech Services revenue	203.289	221.585	241.527	260.849	281.717	301.437
Business Services revenue	35.874	43.767	52.520	61.974	71.890	81.954
Segment revenue	239.163	265.351	294.047	322.823	353.607	383.392
Blended Gross profit margin	51.29%	52.86%	54.04%	55.27%	56.58%	57.93%
Segment Gross profit	122.665	140.254	158.889	178.432	200.060	222.103

Bull terminal arithmetic: CNY301.437B × 59.0% = CNY177.848B; CNY81.954B × 54.0% = CNY44.255B; total **Gross profit** = CNY222.103B. Revenue sums to CNY383.392B. The segment revenue CAGR is 9.90% and **Gross profit** CAGR is 12.61%. This outcome requires Business Services to become about 21.4% of segment revenue from the 15% analytical start and for its margin to converge close to FinTech's.

Case	FinTech TTM+5y revenue	Business Services TTM+5y revenue	Sum of product lines	Reported-segment forecast	Revenue residual	Weighted Gross profit margin	Segment Gross profit
Bear	241.432	47.987	289.419	289.419	0.000%	47.35%	137.031
Base	272.016	65.993	338.009	338.009	0.000%	55.24%	186.726
Bull	301.437	81.954	383.392	383.392	0.000%	57.93%	222.103

The probability weights are 25% bear, 50% base and 25% bull. They recognise that the latest aggregate trend is stable and the quality reset is evidenced, making base the modal path, while assigning equal tails to a successful AI/cloud monetisation cycle and a pricing/utilisation/regulatory disappointment. The weights are segment-research inputs only; they do not authorise portfolio action.

What the model says economically

The base case does not need a return to FY2021's 34% segment growth. It needs the aggregate to compound modestly above the recent FY2023-FY2025 CAGR as faster Business Services gains mix, and it needs gross margin to continue expanding at a much slower rate than the last five years. This is plausible but not conservative in every dimension: the 7.16% revenue CAGR is moderate, while the Business Services margin journey to 48% is an execution claim.

The bear case is not a collapse. Weixin Pay's embedded network and essential cloud workloads should preserve positive nominal growth, but lower product quality and underutilised AI capacity reduce margin. **Gross profit** grows only 2.24% annually from the TTM anchor despite 3.89% revenue growth. This is the key downside asymmetry: capital can be consumed by AI infrastructure while segment gross profit barely grows.

The bull case requires Business Services to compound near 18%, retain higher pricing and scale gross margin to 54%. It also requires FinTech to regain durable high-single-digit growth. Neither requirement is impossible, but both must occur together for segment **Gross profit** to exceed CNY222B. The strongest falsification would be sustained cloud growth without gross-margin improvement, indicating that growth is being purchased through discounts or excess capacity.

11. Key risks and wildcards

- **Payment regulation and conduct - bear.** Licensing, reserve protection, merchant due diligence, anti-fraud, data-security and fair-competition obligations can raise costs or restrict product design. Regulation protects incumbents from casual entry but also caps monetisation. A change in fees, reserve economics, consumer-credit rules or data use could lower both growth and FinTech gross margin.

- **Consumer and merchant weakness - bear.** Management described consumption improvement as nascent. If discretionary demand weakens, commercial payment volume and wealth/loan activity can disappoint together. Payment's large analytical share means a small miss can outweigh high percentage growth in the smaller Business Services engine.

- **Cloud price elasticity - bear/base.** Tencent raised prices and reduced discounts. If customers multi-cloud or migrate commodity workloads, realised price may not hold. The first evidence would be a widening gap between management's cloud-growth language and aggregate segment growth, accompanied by stalled gross margin.

- **AI capacity utilisation - bear/base.** The 2026-27 compute build is unusually large relative to prior capex. Underutilised accelerators, short hardware lives, model commoditisation or slower paid-token conversion would pressure depreciation and cash returns. Gross margin may not capture all of this burden because some R&D and corporate costs sit below segment gross profit.

- **AI monetisation and WorkBuddy - bull/base.** Cash receipts were said to ramp before subscription revenue is fully recognised. Strong conversion from free to paid users, recurring agent usage and model-as-a-service consumption could produce a longer growth runway than current reported revenue suggests. Evidence should include repeat usage, paid cohorts and sustained price rather than downloads alone.

- **Alibaba, Huawei, Baidu and telecom competition - bear.** Competitors can subsidise compute, bundle models and infrastructure, or win government and enterprise workloads through procurement relationships. Alibaba's greater disclosed scale and Baidu's AI focus make cloud share gains uncertain. Tencent's defence must be ecosystem-native value, not commodity pricing.

- **Weixin commerce flywheel - bull.** Rapid Mini Shops and Mini Program activity could increase merchant acquisition, payment transactions, advertising demand and cloud/tool adoption together. The wildcard is powerful because it can lift several Tencent engines, but Tencent discloses neither Mini Shops GMV nor a product-revenue bridge. The thesis must wait for monetisation evidence.

- **Financial-services credit and partner risk - bear.** Wealth and loan facilitation can raise revenue quality but introduce regulatory, reputation and credit-cycle exposure even when partner institutions retain much of the balance-sheet risk. A weak credit environment can reduce originations, raise controls and compress distribution economics.

- **Cybersecurity, fraud and operational resilience - bear.** Payments and cloud require continuous availability and trusted data handling. A significant outage, fraud event or data breach could cause remediation costs, customer churn and regulatory action, attacking the very trust moat that supports both businesses.

- **Product-mix opacity - all cases.** Tencent's non-disclosure of product dollars is a model risk, not a cosmetic gap. The same 9% aggregate growth can be generated by materially different FinTech/Business Services mixes, each with different margins and capital needs. The appendix makes the allocation explicit and sensitivity-tests it, but a future disclosure could require a substantial rebase.

Segment summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	CNY289.419B	Gross profit	47.35%	CNY137.031B	25%
Base	CNY338.009B	Gross profit	55.24%	CNY186.726B	50%

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bull	CNY383.392B	Gross profit	57.93%	CNY222.103B	25%

The segment clears a durability test but not a disclosure-purity test. Weixin’s transaction network and merchant workflows provide genuine protection, and Tencent has demonstrated a multi-year shift toward higher-quality revenue. The five-year base case is credible if cloud pricing, paid AI mix and infrastructure utilisation translate into gross profit rather than merely revenue. The central risk is that group AI investment and competitive pricing consume capital faster than this reported gross-profit metric reveals. The next evidence to prioritise is product-level revenue or KPI disclosure, retention after cloud price increases, paid-agent conversion, payment-volume trends, and whether segment gross margin continues to rise after the 2026-27 compute build.

Tencent Holdings - Marketing Services Segment Deep Dive

Ticker: 0700.HK **Reporting currency:** CNY **TTM anchor:** 2026-06-30 **Five-year forecast endpoint:** 2031-06-30 **Exact sealed segment-profit basis: Gross profit Scope discipline:** Tencent historical figures, growth rates, management quotations, and accounting classifications come only from the DR-cleared `data_package.md` and the QFR-sealed `statutory_bridge.json`. External sources are used only for market, competitor, and regulatory context.

0. Segment boundary and taxonomy note

Tencent renamed the reportable line from **Online Advertising** to **Marketing Services** during FY2024. The FY2024 annual report presented FY2023 comparatives under the new label, and the DR-cleared data package says the economic perimeter did not materially change. The reporting boundary is therefore FY2024 for the label but not for the underlying economics. The FY2021-FY2025 revenue and gross-profit history is comparable on the current economic perimeter. A separate FY2023 income-statement reclassification moved certain investment-related items below operating profit; that affects comparisons of consolidated statutory operating income, not the Marketing Services revenue or gross-profit series used here. [data_package §1, taxonomy flags, lines 81-86]

1. What this segment actually is

Marketing Services is Tencent's advertising-inventory and advertising-technology business. An advertiser pays to reach or convert users across Tencent's consumer surfaces. The important inventory includes advertising associated with Video Accounts, Weixin/WeChat Search, Mini Programs, Mini Games, Moments and other Tencent content or utility environments. The issuer does not disclose a complete dollar split among these products, so this appendix does not manufacture one. Instead, it treats the reportable segment as the single financial line and models its revenue through the economic variables that apply across those products.

The customer base ranges from large national brands to performance marketers, game publishers, e-commerce merchants, local-service providers and smaller businesses that buy campaigns through automated tools. Brand advertisers generally value reach, audience quality and association with premium content. Performance advertisers value measurable conversion, customer-acquisition cost and return on ad spend. Tencent's advantage is that these demands can meet inside a broad, authenticated ecosystem spanning communication, content, search, transactions, Mini Programs and merchant services. The advertiser is not simply buying an impression; it is often buying a path from discovery to action without forcing the user to leave Weixin.

The pricing model is predominantly auction-based and outcome-oriented. Depending on the campaign and placement, advertisers may bid for impressions, clicks, conversions, installations, leads or other actions. Tencent's AIM+ automation product uses machine learning to help choose audiences, bids, placements and creative combinations. Better prediction can improve both sides of the marketplace: an advertiser can accept a higher price per impression if the expected conversion value rises, while Tencent can allocate scarce inventory to the bidder creating the most economic value. This means revenue can grow even when user count or raw ad load grows slowly. Yield, measured conceptually as revenue per unit of inventory, is as important as volume.

Go-to-market has two layers. Large advertisers and agencies receive sales support, measurement and vertical-specific solutions. Smaller performance customers can enter through self-service tools and increasingly automated campaign creation and optimization. AIM+ reduces the expertise and labor required to operate campaigns. That can widen the addressable advertiser pool, improve retention and raise spend, but it also makes the quality of Tencent's prediction models and conversion data central to the proposition.

The products are economically connected. Video Accounts supplies growing short-video engagement and premium ad inventory. Search expresses user intent. Mini Programs and Mini Shops provide closed-loop destinations where a user can browse, transact or request a service. Mini Games and in-app game ads create performance inventory but can be more cyclical and more sensitive to content supply. Moments and other mature surfaces provide broad reach but should not be assumed to carry the same long-run growth as newer formats. This portfolio is the analytical reason to forecast the segment from three drivers-inventory and engagement, eCPM/conversion, and monetization mix-rather than extrapolating one recent quarterly rate.

2. Current economics - TTM ended 2026-06-30

The four reported quarters through June 2026 produced Marketing Services revenue of **CNY159.094 billion**: CNY36.242B in Q3 2025, CNY41.116B in Q4 2025, CNY38.171B in Q1 2026 and CNY43.565B in Q2 2026. This is a direct sum of the four DR-cleared quarterly rows, not a new historical pull. [Q3R25, FYR25, Q1R26 and Q2R26/IR2026; data_package §5, Marketing Services rows, lines 264, 268, 272 and 276] The corresponding QFR-sealed TTM **Gross profit** was **CNY91.069 billion**, yielding a **57.24% gross margin**. [TENCENT_IR2026, Note 6; data_package §3a, TTM Marketing Services gross-profit row, line 193]

The quarterly YoY rates were 21%, 17%, 20% and 22%. Back-solving the prior-year quarterly bases from those rounded rates implies approximate TTM growth of 20.0%; this is a diagnostic, not a separately issuer-disclosed TTM rate. The underlying disclosed evidence is the four quarterly rates. [data_package §4, Marketing Services segment-YoY row, line 247; data_package §5, lines 264, 268, 272 and 276]

FY2025 revenue was CNY144.973B, up 19.4%, and gross profit was CNY83.389B, for a 57.52% gross margin. [TENCENT_AR2025, Note 6/MD&A; data_package §3, rows 137-142] TTM margin is therefore essentially stable with FY2025, despite quarterly movement. Q4 2025 reached 59.7%, Q1 2026 fell to 55.0%, and Q2 recovered to 57.3%. [FYR25, Q1R26 and Q2R26/IR2026; data_package §5, lines 268, 272 and 276] The range is material: an analysis that simply assigns the best quarter to the terminal year would overstate normalized profitability, while one that treats Q1 as a permanent reset would ignore the Q2 rebound.

Product shares are **not separately disclosed in dollars**. The data package identifies Video Accounts, Search and Mini Programs as advertising products or inventories but states that only aggregate segment dollars are available. [data_package §4, Marketing Services product row, line 236] It also provides growth-only operating indicators: Video Accounts time spent grew more than 20% in FY2025, Q1 2026 and Q2 2026; AIM+ represented approximately 30% of ad spend in Q1 2026; and segment revenue grew 17%-22% across the last four quarters. [data_package §4, lines 246-248] These indicators can explain growth, but they cannot support a historical revenue allocation by product.

Capital intensity is also not disclosed by segment. Tencent does not allocate segment operating expenses, depreciation, capital expenditure or working capital. The exact disclosed profitability measure is gross margin, not operating margin. [data_package §5, line 259] Advertising requires compute for recommendation, bidding and model inference, content delivery infrastructure, trust-and-safety systems and sales tooling. However, the group also uses the same infrastructure for games, social products and cloud. Allocating group capex to Marketing Services would create false precision. This appendix therefore forecasts **Gross profit** and leaves corporate selling and marketing, general and administrative expenses, AI investment and other bridge items to the synthesis stage, exactly as the sealed statutory bridge requires. [data_package §3a, forecast-driver ledger, lines 210-223]

3. Unit economics

Revenue begins with monetizable attention and intent. The first variable is eligible inventory: how much user activity occurs in formats Tencent can monetize without damaging the product. Video views, searches, Mini Program sessions and transactions can expand inventory. Ad load can also rise, but it is constrained by user experience and regulation. Tencent's best long-term growth is therefore unlikely to come from mechanically inserting more ads into mature surfaces. It is more likely to come from newly monetizable activity, better matching and a richer conversion loop.

The second variable is eCPM or effective yield. An auction can support higher prices when the expected economic return to the advertiser improves. Better targeting raises the probability that a displayed ad becomes a click, lead, sale or installation. Better creative generation can reduce advertiser production costs. Better measurement can increase confidence that Tencent caused the outcome. AIM+ matters because it can coordinate these decisions at scale. Management's quantified anchor-approximately 30% of ad spend using AIM+ in Q1 2026-shows meaningful adoption but also leaves room for penetration to increase. [data_package §6, Marketing Services row “approximately 30%,” line 314]

The third variable is mix. Search, Mini Programs and commerce-linked formats can carry high intent. Video Accounts can combine engagement, native content and performance advertising. In-app game ads can produce strong bursts but are more volatile. Brand advertising is exposed to the economic cycle, while performance budgets can be more resilient when measured returns remain attractive. A shift toward higher-conversion formats can raise segment revenue and gross margin even if aggregate impressions grow more slowly.

From revenue to gross profit, the principal deductions are the costs Tencent classifies in cost of revenues. Economically, these can include traffic-acquisition or revenue-sharing payments, content-related costs, bandwidth, servers, model inference, delivery and operational support. The exact composition is not separately disclosed for Marketing Services. The five-year

margin history nevertheless gives a strong empirical boundary. Gross margin fell from 45.78% in FY2021 to 42.32% in FY2022, then rose to 50.59% in FY2023, 55.39% in FY2024 and 57.52% in FY2025. [Tencent AR2021-AR2025, Note 6/MD&A; data_package §3, row 142] The improvement suggests that mix, pricing, platform efficiency and operating scale more than offset incremental delivery costs during FY2023-FY2025.

That history should not be extrapolated linearly. The improvement from FY2022 to FY2025 was 1,520 basis points, partly following a depressed FY2022 demand environment and a rapid commercialization phase. At a 57% starting margin, future gains face a harder base. AI creates both value and cost: targeting can increase auction yield, but larger models, inference and creative generation consume compute. Content formats may require creator sharing or traffic acquisition. The base case therefore allows continued but slowing gross-margin expansion. The bull case requires exceptionally favorable yield and product mix. The bear case recognizes that Tencent may have to spend more to maintain engagement, subsidize advertisers or absorb AI delivery costs while demand weakens.

Operating profit cannot be inferred by subtracting a generic expense percentage from segment gross profit. The sealed statutory bridge treats Tencent's four segment gross-profit lines as additive, then subtracts corporate/unallocated selling and marketing expenses, general and administrative expenses, and other gains or losses to arrive at statutory operating income. For the TTM, Marketing Services contributed CNY91.069B to total segment gross profit of CNY446.785B. Corporate/unallocated lines were negative CNY47.663B for selling and marketing, negative CNY143.150B for general and administrative expenses and positive CNY2.571B for other gains/losses. [data_package §3a, lines 190-201] Those items must be projected once at group level, not allocated here.

Margin sensitivity is powerful. On the CNY159.094B TTM revenue base, 100 basis points of gross margin equals approximately CNY1.591B of annual gross profit. By the reviewed base-case terminal revenue of CNY253.580B, the same 100 basis points equals CNY2.536B. The main forecasting risk is therefore not only whether revenue compounds near 10%; it is whether the incremental revenue is high-yield closed-loop inventory or lower-margin supply that requires greater sharing and compute.

4. Competitive dynamics

Tencent competes for both consumer attention and advertiser budgets. ByteDance's Douyin is the most important attention competitor because short video offers enormous engagement, sophisticated recommendation and a deeply integrated commerce funnel. ByteDance is private and does not provide a directly comparable audited advertising-revenue line, so a precise public market-share comparison would be unreliable. Kuaishou competes in short video, live streaming and commerce. Alibaba and PDD capture high-intent merchant spending close to transaction. Baidu competes in search and increasingly AI-mediated discovery. Xiaohongshu, Bilibili and vertical platforms compete for specific demographics, content categories and brand budgets.

The market remains structurally attractive but difficult to size consistently. China's State Administration for Market Regulation reported **CNY1,357.43B** of internet-advertising business revenue in 2025, up 34.6%, and said internet advertising represented 66.2% of total advertising-business revenue. The agency also reported that leading internet platforms grew above 36.1%. ([SAMR, 2025 advertising-industry data](https://www.samr.gov.cn/xw/zj/art/2026/art_c26cc939029e4faf86674ff7ac0c1ee5.html)) On that broad official denominator, Tencent's FY2025 Marketing Services revenue of CNY144.973B would equal a crude 10.7% scale ratio. It is **not** a clean market share: the denominator's business-revenue scope differs from Tencent's reportable revenue and includes participants and activities not necessarily comparable. It is best used only to show that Tencent is a large but not dominant single platform in a fragmented and fast-growing pool.

Competitor growth demonstrates how quickly platform advertising can diverge. Kuaishou's online marketing services grew 12.5% in FY2025, but Q2 2026 growth slowed to 4.4% as online marketing revenue reached CNY20.6B. Its disclosure attributes growth to marketing spending and AI-enabled campaign tools. ([Kuaishou FY2025 results](https://ir.kuaishou.com/news-releases/news-release-details/kuaishou-technology-announces-fourth-quarter-and-full-year-2025); [Kuaishou Q2 2026 results](https://ir.kuaishou.com/news-releases/news-release-details/kuaishou-technology-announces-second-quarter-and-interim-2026)) Alibaba reported FY2026 customer-management revenue growth of 5% in China e-commerce. ([Alibaba FY2026 annual report](https://www.hkexnews.hk/listedco/listconews/sehk/2026/0618/2026061800844.pdf)) Baidu disclosed that Q4 2025 AI-native marketing-services revenue rose 110% to CNY2.7B while redefining its broader business perimeter, showing how new AI formats can grow rapidly from a small base even as legacy search economics face transition. ([Baidu FY2025 results](https://ir.baidu.com/news-releases/news-release-details/baidu-announces-fourth-quarter-and-fiscal-year-2025-results)) These paths support a non-uniform Tencent forecast: strong near-term share gains can decelerate sharply as formats mature,

while new AI products can still add bursts of growth.

Tencent's pricing power is conditional, not absolute. It has unique access to Weixin inventory and first-party ecosystem signals, but advertisers can move marginal budgets quickly when measured returns deteriorate. Large agencies compare platforms continuously. Performance advertisers are especially price-sensitive: they care less about the nominal bid than about acquisition cost and lifetime value. Tencent can raise effective prices when AIM+ improves conversion, but it cannot indefinitely raise prices without delivering more value.

Entry barriers are substantial. A new competitor needs daily consumer attention, a large advertiser base, real-time auctions, fraud prevention, measurement, creative tools, regulatory compliance and enough conversion data to train models. Tencent adds a further barrier through Mini Programs, messaging relationships, payments and merchant touchpoints. Yet the barriers do not prevent substitution at the budget level. An advertiser can shift spend to Douyin, Kuaishou, Taobao/Tmall, PDD, Baidu or emerging AI discovery channels without replicating Tencent's infrastructure.

Regulation changes the feasible frontier. China's Internet Advertising Measures, effective May 2023, specify responsibilities for advertisers, publishers and internet platforms; they also address algorithmic recommendations, livestream advertising, ranked listings and record retention. ([SAMR Internet Advertising Measures](https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fgs/art/2023/art_d93a579afd45413e8576e4623fab348f.html)) The Personal Information Protection Law governs personal-information processing, and the generative-AI measures impose obligations around lawful data, privacy, content and service controls. ([National People's Congress, PIPL](https://www.npc.gov.cn/npc/c2597/c5854/bfflywwb/202311/t20231117_433007.html); [CAC generative-AI measures](https://www.cac.gov.cn/2023-07/13/c_1690898327029107.htm)) These rules do not eliminate targeted advertising, but they increase compliance cost and can limit how identity, behavior and generated content are used.

5. Moat at the segment level

The strongest moat is **closed-loop ecosystem context**. Weixin combines communication, content discovery, search, Mini Programs, payments and merchant interactions. This creates signals about intent and a short route from ad exposure to action. A user can discover a product in Video Accounts, enter a Mini Program and transact without leaving the ecosystem. That integration can improve conversion measurement and reduce friction for both user and advertiser.

The second moat is scarce inventory inside a high-frequency product. Advertisers cannot buy Weixin's social graph or native surfaces from another publisher. Tencent controls the balance between monetization and user experience, which helps preserve long-run inventory quality. This is different from an open ad network whose publishers can multi-home easily. The inventory remains scarce as long as users continue to treat Weixin as an essential utility and content environment.

The third moat is data and learning scale. More campaigns generate more feedback about bidding, conversion and creative performance. Better models can improve advertiser return, attracting more spend and producing more data. AIM+ is the product expression of this loop. Its roughly 30% share of ad spend in Q1 2026 suggests the loop is already economically relevant but not saturated. [data_package §6, line 314] However, this advantage is constrained by privacy rules and by the possibility that foundation-model capabilities become broadly available. Tencent's durable edge must come from proprietary ecosystem feedback and workflow integration, not access to generic AI models.

The fourth moat is cross-surface demand aggregation. Large advertisers can reach multiple Tencent properties through one buying system, while smaller advertisers can use automation. A broad advertiser pool improves auction density, and dense auctions improve monetization of every impression. This is a network effect, but a bounded one: advertisers routinely use several platforms, so it does not create winner-take-all economics.

The segment does **not** have an impregnable moat. Consumer attention can migrate. Douyin has shown that a new format can capture time and commerce intent at enormous scale. Retail-media platforms may own better purchase data for product categories. AI agents may intermediate search and discovery, reducing the value of traditional keyword or feed inventory. Creative generation may lower switching costs by making it cheaper to adapt campaigns across platforms. Tencent's defense is therefore continuous product execution rather than a static installed base.

Over five to ten years, the moat is likely durable enough to protect above-average gross margins, but not durable enough to justify perpetual high-teens growth. The base case assumes Tencent continues to gain share through Video Accounts, Search, Mini Programs and AIM+, then converges toward a high-single-digit terminal annual growth rate. The bull case assumes the closed loop becomes a leading commercial operating system and supports low-to-mid-teens compounding. The bear case assumes the ecosystem remains valuable but advertiser ROI, regulation and attention competition reduce growth and compress gross margin.

6. Historical growth rates - DR-cleared data package

Tencent does not disclose product-level Marketing Services revenue in dollars. The finest dollar-disclosed line is the aggregate segment, so the table preserves that line rather than back-solving Video Accounts, Search or Mini Programs. “Three-year CAGR” below means FY2022 to FY2025, exactly three annual compounding intervals; it uses the full five-year segment row even though the compact table displays FY2023-FY2025.

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	3-year CAGR	Most recent YoY	Data-package cite
Marketing Services aggregate [DP §4 row Marketing Services]	CNY101.482B [DP §3 row Revenue]	CNY121.374B [DP §3 row Revenue]	CNY144.973B [DP §3 row Revenue]	20.56% FY2022-FY2025 [DP §3 row Revenue]	19.4% FY2025 [DP §3 row YoY]	Tencent AR2021-AR2025, Note 6/MD&A; data_package §3, lines 137-142; §4, line 236
Video Accounts / Search / Mini Programs [DP §4 row Marketing Services]	Not separately disclosed [DP §4 row Marketing Services]	Not separately disclosed [DP §4 row Marketing Services]	Not separately disclosed [DP §4 row Marketing Services]	Not calculable [DP §4 row Marketing Services]	Growth-only indicators [DP §4 rows 246-248]	data_package §4, lines 236 and 246-248

Arithmetic check: CNY121.374B × 1.194 = CNY144.921B, versus reported CNY144.973B. The 0.04% difference is well inside the 2% tolerance and reflects the rounded 19.4% growth rate. Earlier periods also reconcile: CNY101.482B × 1.196 = CNY121.372B, versus CNY121.374B. No historical dollars were back-solved, and no row fails the mandatory arithmetic test.

For context, the full disclosed sequence is CNY88.666B, CNY82.729B, CNY101.482B, CNY121.374B and CNY144.973B from FY2021 through FY2025. Revenue declined 6.7% in FY2022 and then grew 22.7%, 19.6% and 19.4%. Gross margin moved from 45.78% to 42.32%, 50.59%, 55.39% and 57.52%. [data_package §3, lines 137-142] The record includes both a stress period and a monetization rebound, which is more informative than the recent three positive years alone.

7. Management guidance and forward anchors

Tencent gives directional commentary rather than a numerical five-year or FY+1 revenue guide for Marketing Services. Every Marketing Services item in data-package §6 is reproduced below, using the excerpt already verified upstream.

- **Q3 FY2025 call; James Mitchell - “continuation of current trends.”** [data_package §6, line 310] Management connected the outlook to AI and a gently improving demand environment. This supports positive near-term growth but is not permission to hold 20% indefinitely.

- **Q3 FY2025 call; James Mitchell - “continue deploying more AI capabilities.”** [data_package §6, line 311] AIM+ and targeting improvements remain a forward driver. The modeling consequence is a multi-year eCPM/conversion contribution, with diminishing increments as adoption rises.

- **Q3 FY2025 call; James Mitchell - “percentage ... is steadily increasing.”** [data_package §6, line 312] The share of spend using AIM+ was rising, but management gave no terminal penetration target. The forecast therefore avoids an unsupported saturation share.

- **FY2025 release; Ma Huateng - “AI capabilities improved our ad targeting.”** [data_package §6, line 313] AI is a pricing and conversion driver, not a separate revenue line. The driver model separates inventory growth from yield improvement.

- **Q1 FY2026 release; Tencent management - “approximately 30%.”** [data_package §6, line 314] This is the only quantified recent AIM+ adoption anchor. It indicates room for further adoption, but the absence of revenue or conversion uplift per percentage point prevents a mechanical revenue formula.

- **Q2 FY2026 call; James Mitchell - “wouldn't ... straight line extrapolate anything.”** [data_package §6, line 315] This is the most important restraint on the 22% Q2 growth rate. Q2 included in-app-game advertising and a choppy consumer environment, so the cases explicitly decelerate rather than holding 22%.

- **Q2 FY2026 call; James Mitchell - “outperforming the overall China advertising market.”** [data_package §6, line 316] Tencent appears to be taking share, but outperformance can occur at a lower absolute rate when the market slows. The base case embeds share gains that moderate through the horizon.

- **Q2 FY2026 release; Tencent management - “Most major industry categories increased.”** [data_package §6, line 317] Demand breadth reduces dependence on one advertiser vertical. It does not eliminate macro cyclicality, particularly for brand budgets and discretionary categories.

[DATA GAP: Tencent provides no numerical Marketing Services FY+1 revenue guide, no product-level revenue mix, no AIM+ terminal penetration target, no ad-load target and no product-level gross margin.]

8. Forward growth assumptions - TTM 2026-06-30 to 2031-06-30

Because only aggregate segment revenue is dollar-disclosed, “Marketing Services aggregate” is the sole financial product line. A true product-level bottoms-up forecast is not supportable. The reviewed forecast is an aggregate scenario path constrained by three overlapping mechanisms-monetizable inventory and engagement, AI-led eCPM/conversion, and new-format/commercial mix-but it does not assign growth points or starting dollars to any undisclosed product or driver.

Base case

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM-to-TTM+5y	Justification
Marketing Services aggregate	20.56% FY2022-FY2025	Approx. 20.0% TTM; 22% Q2	Directional continuation; no numeric guide	9.77%	Growth decelerates from 14% to 7% because Q2 contained in-app-game advertising, AIM+ has no disclosed revenue-uplift coefficient, ad load is undisclosed, and peer growth has already slowed.

The base case starts materially below the recent TTM pace because management explicitly rejected straight-line extrapolation and identified in-app-game advertising as a Q2 contributor. It assumes Video Accounts, Search and Mini Programs continue to create inventory and intent, while AIM+ improves bidding and conversion, but it gives no separate numerical credit for the undisclosed product mix, ad load, impressions, eCPM or conversion uplift. The comparable evidence shows Kuaishou moving from 12.5% FY2025 growth to 4.4% in Q2 2026, so platform advertising can slow rapidly. Tencent's broader closed loop and current share gains justify a less severe path, not immunity.

Base aggregate growth path	Year 1	Year 2	Year 3	Year 4	Year 5
Marketing Services revenue growth	14.0%	11.0%	9.0%	8.0%	7.0%

The appendix does not allocate those annual growth rates among inventory, AIM+ or commercial mix. Those variables overlap: a new Video Accounts placement changes inventory and mix, while AIM+ can affect both conversion and auction yield. Tencent discloses none of the denominators needed to make the components mutually exclusive. The aggregate path therefore treats Video Accounts engagement, Search/Mini Program intent and AIM+ adoption as corroborating mechanisms only. The 30% AIM+ share is an adoption datum, not evidence that AIM+ contributes a specified number of growth points. Likewise, no ad-load increase is assumed; any unreported increase would be upside to this path only if user retention and advertiser ROI held.

Bull case

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM-to-TTM+5y	Justification
Marketing Services aggregate	20.56% FY2022-FY2025	Approx. 20.0% TTM; 22% Q2	Directional continuation; no numeric guide	13.94%	Video Accounts and Search monetize faster, AIM+ raises advertiser ROI, and the Weixin commerce loop wins budgets; growth still fades from 19% to 9% as the base expands.

The bull case requires more than a favorable ad cycle. It assumes Tencent turns Weixin into a more effective commercial operating system: Video Accounts supplies engagement, Search identifies intent, Mini Programs complete transactions and AIM+ improves campaign economics across the loop. Advertisers then accept higher effective prices because conversion improves. Even here, growth decelerates below the recent peak as the revenue base expands. The terminal 9% rate remains ambitious relative to Alibaba's 5% FY2026 customer-management growth and Kuaishou's 4.4% Q2 2026 growth. Bull

validation would require continued double-digit segment growth after the in-app-game comparison normalizes, a fresh AIM+ adoption update accompanied by advertiser-return evidence, and gross margin holding above 58% without disclosed ad-load pressure.

Bull aggregate growth path	Year 1	Year 2	Year 3	Year 4	Year 5
Marketing Services revenue growth	19.0%	17.0%	14.0%	11.0%	9.0%

The bull path uses no one-time step-up from an invented product mix and assigns no numerical growth points to undisclosed products. Engagement, AI-led advertiser value and new formats must reinforce one another; evidence that AIM+ merely migrates existing campaigns, or that monetization relies on higher ad load rather than better conversion, would move the outcome toward base.

Bear case

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM-to-TTM+5y	Justification
Marketing Services aggregate	20.56% FY2022-FY2025	Approx. 20.0% TTM; 22% Q2	Directional continuation; no numeric guide	2.30%	The in-app-game boost fades, weak demand and lower ad ROI produce a 6% decline in Year 2, and growth recovers only gradually; the path is consistent with Tencent's FY2022 decline and Kuaishou's Q2 slowdown.

The bear case does not assume the Weixin franchise disappears. It assumes that high engagement fails to translate into proportional monetization because the Q2 in-app-game contribution does not recur, advertisers reduce budgets, competitors price aggressively, AI tools become commoditized and compliance limits targeting. Revenue declines 6% in Year 2, close to the 6.7% FY2022 decline, then recovers only gradually. AIM+ penetration can still rise in this case, but adoption merely migrates campaigns and fails to lift advertiser ROI or eCPM; Tencent also declines to raise ad load materially because of user-experience constraints.

Bear aggregate growth path	Year 1	Year 2	Year 3	Year 4	Year 5
Marketing Services revenue growth	5.0%	-6.0%	2.0%	5.0%	6.0%

The non-uniform trough matters. A smooth positive CAGR would hide operating stress and omit the segment's demonstrated cyclicality. The explicit path creates an actual revenue contraction, a simultaneous auction-yield and cost shock, and only partial normalization; without those mechanisms the prior bear was too close to a slower base case.

9. Forward Gross profit margin assumptions

The exact metric is **Gross profit** and the margin is **Gross margin**. No table or conclusion in this appendix relabels it operating income. The TTM starting margin is 57.24%, calculated from CNY91.069B of sealed Marketing Services gross profit and CNY159.094B of four-quarter revenue. [data_package §3a, line 193; data_package §5, lines 264, 268, 272 and 276]

Case	TTM gross margin	Year 1	Year 2	Year 3	Year 4	TTM+5y gross margin	Change vs TTM	Mechanism
Bear	57.24%	54.0%	49.0%	50.0%	51.0%	52.0%	-524 bps	Revenue contraction weakens auctions while traffic/content sharing, advertiser support and AI delivery costs remain sticky; only partial recovery follows.

Case	TTM gross margin	Year 1	Year 2	Year 3	Year 4	TTM+5y gross margin	Change vs TTM	Mechanism
Base	57.24%	57.0%	57.5%	58.0%	58.5%	59.0%	+176 bps	Better conversion and closed-loop mix offset inference/content costs, but the flat FY2025-to-TTM margin and absent product cost data limit assumed leverage.
Bull	57.24%	58.0%	59.0%	60.0%	61.0%	62.0%	+476 bps	Strong conversion pricing and self-service automation create high incremental gross margins while traffic-sharing and model-inference unit costs fall.

The base-case increase exceeds 100 basis points, so the mechanism must be concrete. First, AIM+ can raise realized pricing only if improved conversion raises advertiser willingness to bid; adoption by itself is not a margin driver. Second, Search and Mini Program destinations can increase the value of an impression because user intent and transaction completion are closer. Third, software automation and auction density can scale faster than manual campaign support. The offset is AI inference, content delivery and revenue sharing. Because Tencent discloses neither product mix nor product cost, and TTM gross margin of 57.24% is slightly below FY2025's 57.52%, the reviewed base terminal margin is limited to 59.0% rather than assuming nearly 400 basis points of unverified leverage.

The bull case reaches 62.0%, 476 basis points above TTM. This still requires high incremental gross margin on new revenue and no material reset in creator or traffic-acquisition economics. It assumes the cost of model inference falls per task, AIM+ materially improves advertiser return and Tencent retains a large share of the created value. It would be invalid if gross margin failed to reach 59% by Year 2 or if revenue-sharing costs rose faster than yield.

The bear case reaches a 49.0% trough and ends at 52.0%, 524 basis points below TTM. The decline is plausible because FY2022 gross margin was 42.32%, demonstrating that segment margin is not structurally fixed. [data_package §3, line 142] The case is not as severe as FY2022 because current monetization tools and inventory mix are more developed. The main mechanisms are advertiser price sensitivity, promotional support, a less favorable inventory mix, traffic/content payments and compute costs that do not flex down with revenue. Gross profit therefore falls below the TTM level through the whole bear horizon despite eventual revenue recovery, which is the economically important downside mechanism.

Product-level gross margins cannot be computed because Tencent discloses neither product revenue nor product gross profit. A fabricated weighted average would violate the data contract. The single aggregate margin is therefore the only reconstructable segment assumption. Corporate/unallocated selling and marketing, G&A and other gains/losses remain outside this segment table and are projected once in synthesis.

10. Segment rollup - bottoms-up driver model

Revenue and Gross profit by year

Case	Metric	TTM 2026-06-30	Year 1	Year 2	Year 3	Year 4	TTM+5y 2031-06-30
Bear	Marketing Services revenue	159.094	167.049	157.026	160.166	168.175	178.265
Bear	Gross margin	57.24%	54.0%	49.0%	50.0%	51.0%	52.0%
Bear	Gross profit	91.069	90.206	76.943	80.083	85.769	92.698
Base	Marketing Services revenue	159.094	181.367	201.318	219.436	236.991	253.580
Base	Gross margin	57.24%	57.0%	57.5%	58.0%	58.5%	59.0%
Base	Gross profit	91.069	103.379	115.758	127.273	138.640	149.612
Bull	Marketing Services revenue	159.094	189.322	221.507	252.517	280.294	305.521
Bull	Gross margin	57.24%	58.0%	59.0%	60.0%	61.0%	62.0%
Bull	Gross profit	91.069	109.807	130.689	151.510	170.980	189.423

All currency figures in the rollup are CNY billions. Revenue compounds from the TTM anchor for exactly five calendar years, not from FY2025. Gross profit equals revenue multiplied by the case-specific gross margin in every period. Rounding is to three decimals; calculations use unrounded intermediate values.

Disclosure-safe product rollup at the endpoint

Case	Dollar-disclosed product line	TTM+5y revenue	Revenue tie to segment	TTM+5y gross margin	TTM+5y Gross profit	Profit tie
Bear	Marketing Services aggregate	178.265	100.0%	52.0%	92.698	Revenue × margin
Base	Marketing Services aggregate	253.580	100.0%	59.0%	149.612	Revenue × margin
Bull	Marketing Services aggregate	305.521	100.0%	62.0%	189.423	Revenue × margin

The “one-line” product rollup is intentional. Tencent's disclosure does not support separating Video Accounts, Search and Mini Programs into historical or starting-dollar values. The scenario path is informed by three overlapping driver families and is non-uniform, but the financial build remains at the only dollar-disclosed perimeter. This is more conservative and reproducible than assigning unsupported mix percentages that a synthesis model could mistake for issuer facts.

Arithmetic reconciliation

Check	Bear	Base	Bull	Result
Product revenue sum less segment revenue	0.000	0.000	0.000	Pass
Recomputed terminal Gross profit	92.698	149.612	189.423	Pass
Stated terminal Gross profit	92.698	149.612	189.423	Pass
Absolute profit residual	0.000	0.000	0.000	Pass
Five-year revenue CAGR	2.30%	9.77%	13.94%	Pass

The segment totals reconcile within 0.01%, comfortably inside the required 1% tolerance. There is no corporate expense, statutory bridge adjustment or plug in the segment economics. The synthesis stage must add this segment's Gross profit to the other three sealed segment Gross profit lines and then project the corporate/unallocated rows once.

11. Key risks and wildcards

Bear - attention substitution. If user time or commercial intent shifts from Weixin surfaces to Douyin, Kuaishou, Xiaohongshu or a new AI-native interface, Tencent may have to increase ad load or accept slower inventory growth. The key warning sign is Marketing Services growth falling below the broader internet-advertising market for several quarters while Video Accounts engagement remains healthy; that would imply a monetization or advertiser-ROI problem rather than a traffic problem.

Bear - advertiser ROI and macro cyclicality. Tencent can outperform the market and still decelerate if the whole market slows. Management described the consumer backdrop as choppy and warned against straight-line extrapolation. [data_package §6, lines 315-317] Brand budgets can be delayed, and performance advertisers can cut spend immediately when conversion economics deteriorate. The bear model's Year 2 revenue decline of 6% and gross-margin trough of 49% are the principal expressions of this risk.

Bear - AI commoditization. AIM+ may improve targeting, but rivals also deploy automated bidding, creative generation and conversion prediction. If the models converge, AI becomes table stakes rather than a source of pricing power. Tencent would still own inventory and closed-loop data, but the incremental eCPM contribution would fade faster than assumed.

Bear - privacy and advertising regulation. Rules covering personal information, algorithmic recommendations, livestream ads, ranked listings and platform responsibilities can raise compliance costs or reduce targeting flexibility. Stronger restrictions on cross-surface data use would weaken the closed-loop advantage. Penalties are less important than product constraints that reduce conversion measurement.

Bear - content and traffic costs. Video and creator ecosystems can require revenue sharing, incentives and content spending. If Tencent must pay more to retain creators or secure inventory, gross margin can compress even when revenue

grows. A sustained gross margin below 56% without a temporary mix explanation would challenge the reviewed base thesis; a simultaneous revenue decline and sub-50% margin would confirm the bear mechanism.

Base - monetization without user damage. The central execution challenge is increasing commercial yield without degrading Weixin's utility and trust. Ad load is not free. The base case assumes most value comes from better matching and new high-intent surfaces rather than aggressive insertion into mature social experiences.

Base - AIM+ adoption quality. Penetration can rise while economics disappoint if automation simply shifts existing spend without raising advertiser return. The important evidence is not only AIM+ share but also broad advertiser growth, retention, eCPM and conversion quality. Tencent discloses only the approximate 30% adoption anchor, so this remains a monitoring gap.

Bull - AI agents and search. If Weixin's AI and Search products become trusted discovery interfaces, Tencent could capture commercial intent earlier in the user journey and route it directly to Mini Programs. This would deepen the moat and support the bull case's persistent yield and mix contributions. The wildcard is whether agentic answers reduce traditional ad slots faster than new sponsored or transactional formats emerge.

Bull - Mini Program and commerce closure. Greater merchant adoption and better transaction completion can make Tencent inventory more measurable and valuable. The upside is not that Tencent becomes a conventional retailer; it is that the ecosystem earns a larger advertising yield from high-intent traffic while merchants remain responsible for inventory and fulfillment.

All cases - internal game advertising volatility. Management said Q2 included in-app-game ads and cautioned against extrapolation. [data_package §6, line 315] Internal cross-promotion can create attractive revenue but may be tied to game launches and campaign timing. Treating it as recurring high-teens core growth would overstate durability.

All cases - disclosure limits. Product revenue, ad load, impressions, eCPM, active advertisers, retention, advertiser concentration, traffic-acquisition costs and product margins are not separately disclosed in the data package. This makes the aggregate forecast auditable but limits confidence in product-level attribution. Any later synthesis should preserve the aggregate line rather than reverse-engineering unsupported product values.

Summary table

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	CNY178.265B	Gross profit	52.0%	CNY92.698B	30%
Base	CNY253.580B	Gross profit	59.0%	CNY149.612B	55%
Bull	CNY305.521B	Gross profit	62.0%	CNY189.423B	15%

The probabilities are analyst scenario weights, not management guidance. They sum to 100%. The reviewed 30% bear weight reflects the unusually weak disclosure of product mix, ad load, impressions, eCPM, AIM+ uplift and product cost; the 15% bull weight reflects the multiple simultaneous conditions required for sustained share gains and margin expansion. The probability-weighted terminal revenue is CNY238.777B and probability-weighted terminal Gross profit is CNY138.509B; these are diagnostics, not a fourth scenario. The decision-useful range is wide because Tencent's advertising growth depends on simultaneous execution in engagement, AI-led conversion and commerce mix, while the issuer does not disclose product-level dollars.

Others - Segment Deep Dive

Company: Tencent Holdings Limited (`0700.HK`) **Reporting currency:** CNY **Forecast anchor:** TTM ended 2026-06-30 **Forecast horizon:** 2031-06-30, exactly five calendar years **Exact segment profit basis: Gross profit Research status:** Production ER2 segment model; research only; `trade_execution_authorized=false`

0. Segment boundary and taxonomy note

Tencent's CODM evaluates four reportable segments on revenue and **gross profit**, and “Others” consists of film and television production, licensing, merchandise, and other residual activities. The economic perimeter of Others is stable across the FY2021-FY2025 history used here. The FY2024 rename of Online Advertising to Marketing Services did not touch Others, while the FY2023 restatement of investment-related items affected the consolidated income-statement bridge rather than this segment's revenue or gross-profit history [data_package §1, lines 71-86]. Consequently, the five-year Others series can be compared on a consistent segment basis. This appendix uses the exact sealed profit label **Gross profit** throughout and does not allocate selling and marketing, general and administrative, investment, interest, associate, tax, or other corporate bridge lines into Others. Those lines are forecast once at consolidation by the synthesis stage [data_package §3a, lines 210-223].

The boundary is broad but disclosure is narrow. Tencent does not break Others into film, television, licensing, merchandise, or an “other” residual in dollars; the only dollar-disclosed financial projection line is the aggregate segment [data_package §4, Products table, Others row, line 238]. The model therefore uses one accountable aggregate line-**Film, television, licensing, merchandise and other residual activities**-rather than inventing component revenue. This is a disclosure-bounded segment forecast, not a decomposed product build or evidence that each activity has identical economics.

1. What this segment actually is

Others is Tencent's small portfolio of content-production and intellectual-property monetisation activities that does not fit Value Added Services, Marketing Services, or FinTech and Business Services. The source taxonomy names film and television production, licensing, merchandise, and other activities [data_package §1, Others row, line 78]. In practical economic terms, the segment turns creative projects and rights into episodic revenues. A film or television project can create production or distribution revenue; a content right can be licensed for a fixed fee, minimum guarantee, revenue share, or royalty; and recognised characters or titles can support physical merchandise or brand collaborations. Tencent does not disclose which of those contract forms dominates, so these are category-level descriptions rather than issuer-specific mix assertions.

The likely customer set is correspondingly heterogeneous: cinemas and distributors for theatrical projects; broadcasters and streaming platforms for programme rights; consumer-product companies and retailers for licensed intellectual property; and end consumers for merchandise. Because Tencent reports only the residual aggregate, it is not possible to distinguish external customers from transactions that may support the broader Tencent ecosystem before consolidation. Nor is it possible to determine whether one title, one licensee, or one release window accounts for a material share of annual sales. These missing details matter because project economics are not recurring in the same way as subscriptions, payments, or advertising inventory.

Pricing is project- and rights-specific rather than a simple per-user tariff. Film and television economics depend on a title's budget, release timing, distribution terms, audience reception, and the allocation of success between producers and channels. Licensing economics depend on the scarcity and durability of the underlying intellectual property, the breadth of licensed categories and territories, and minimum-guarantee versus royalty terms. Merchandise economics depend on product margins, channel inventory, returns, and whether Tencent bears manufacturing risk or merely collects a royalty. An attractive IP-rights model can be high margin and capital-light after the creative asset is established; a production-heavy slate can consume cash before release and produce a large loss if a title underperforms.

Go-to-market is therefore less like selling a software seat and more like assembling a release and monetisation network around intellectual property. Tencent's distribution reach, social graph, games franchises, advertising tools, payments rail, and Mini Program commerce can theoretically lower customer-acquisition costs and extend a title across media. Yet this appendix does not assign revenue to those synergies because the data package does not disclose cross-segment transfers or an Others product bridge. The synergy is a strategic option, not a booked number.

The segment is financially small. FY2025 revenue of CNY8.077B represented 1.07% of Tencent's CNY751.766B consolidated revenue [data_package §1, lines 73-79]. That small scale limits its direct effect on group revenue but not necessarily its gross-profit volatility. A CNY2B movement in gross profit is immaterial to revenue share but visible in the segment gross-profit bridge. It is therefore best treated as a volatile residual that must be modeled explicitly rather than as a rounding plug.

[DATA GAP: Tencent does not disclose Others revenue by film, television, licensing, merchandise, title, geography, customer, or contract type.]

2. Current economics - FY2025 and TTM

FY2025 Others revenue was CNY8.077B, up 4.1%, with CNY0.292B of gross profit and a 3.62% gross margin [data_package §3, Others table, lines 155-160]. The TTM ended 2026-06-30 is much more severe: revenue was CNY9.922B, calculated from the four cleared quarterly figures of CNY2.593B, CNY2.517B, CNY2.292B, and CNY2.520B [data_package §5, Others rows, lines 266, 270, 274, 278]. The QFR-sealed statutory bridge records an Others gross loss of CNY2.164B for that TTM [statutory_bridge.json, TTM segment_profit_lines, “Others gross profit”]. Dividing the sealed loss by the derived TTM revenue gives a **-21.81% TTM gross margin**.

The striking point is that the TTM revenue acceleration and gross-margin collapse occurred together. Back-solving each prior-year quarter from the data package's disclosed YoY rates produces an estimated prior TTM revenue of CNY6.674B, so TTM revenue growth was approximately 48.7%. That result is a mechanical estimate, not a separately disclosed Tencent KPI: Q3 2025 CNY2.593B divided by 1.83; Q4 CNY2.517B divided by 1.10; Q1 2026 CNY2.292B divided by 2.03; and Q2 CNY2.520B divided by 1.37. A segment growing nearly 50% while moving from a positive FY2025 margin to a deep gross loss is not displaying scalable economics. It is more consistent with project timing, costly content delivery, revenue recognition that does not match cost timing, or a mix shift toward low- or negative-margin activity.

The latest four quarters make the instability visible:

Period	Revenue, CNY B	YoY	Gross margin	Gross profit/(loss), CNY B	Cleared source
Q3 2025	2.593	83%	16.0%	0.415	data_package §5, Others row, line 266
Q4 2025	2.517	10%	-26.5%	-0.667	data_package §5, Others row, line 270
Q1 2026	2.292	103%	-44.9%	-1.029	data_package §5, Others row, line 274
Q2 2026	2.520	37%	-35.1%	-0.885	data_package §5, Others row, line 278
TTM ended 2026-06-30	9.922	48.7% estimated	-21.81%	-2.164 sealed	Sum of the four cleared revenue rows; sealed bridge TTM Others GP

Quarterly gross profit above is revenue multiplied by the disclosed gross margin and is shown only to make the cadence interpretable; the authoritative TTM gross-profit value is the sealed CNY-2.164B. Rounding of the quarter-derived total versus the sealed TTM value may occur because the displayed margins are rounded.

Capital intensity is hidden by segment disclosure. The data package provides no Others capex, content-inventory balance, production commitments, cash advances, working capital, or return-on-project schedule. At the group level Tencent has sharply increased AI-compute procurement, but allocating that group capex to Others would be improper. Economically, the segment can still be capital intensive even without property and equipment: films and television programmes require upfront creative spending, production cash, marketing commitments, and inventory risk before monetisation. Licensing-only revenue would have the opposite profile. The absence of mix disclosure means that a low accounting capex assumption cannot be equated with low invested capital.

[DATA GAP: No segment-level capex, content asset, cash conversion, working-capital, customer concentration, or title-level return data is disclosed for Others.]

3. Unit economics

Gross profit is the only disclosed segment profit measure, so the core unit-economics question is simple to state but difficult to decompose: how much content and product cost Tencent incurs to create each CNY of Others revenue. For FY2025, CNY8.077B of revenue generated only CNY0.292B of gross profit, meaning implied cost of revenue was CNY7.785B. For the TTM, CNY9.922B of revenue and a CNY2.164B gross loss imply CNY12.086B of cost of revenue. Cost therefore exceeded revenue by 21.81%. Both calculations use the cleared revenue and gross-profit figures and do not introduce operating expenses.

That negative spread can arise from several mechanisms. First, project accounting is lumpy: production costs can be recognised when a film or programme is delivered or released, while revenue depends on distribution success and contract

timing. Second, a larger slate can raise absolute revenue yet depress gross margin if incremental titles earn less than their production and distribution cost. Third, impairments or accelerated amortisation can make one period unusually weak. Fourth, merchandise can create inventory, fulfilment, return, and discount risk when Tencent bears principal economics. Fifth, licensing revenues may be high margin but too small to offset production losses. Tencent does not separately disclose these causes, so the model does not claim that one mechanism explains the entire TTM loss.

The segment's five-year record supports a “hit-driven” rather than a steady-state interpretation. Gross margin was 13.25% in FY2021, fell to -3.95% in FY2022 and -14.64% in FY2023, recovered to 8.45% in FY2024 and 3.62% in FY2025, and then fell to -21.81% in the latest TTM [data_package §3, Others table, lines 155-160; sealed bridge]. Revenue also ranged between CNY5.395B and CNY8.077B in FY2021-FY2025 before rising to CNY9.922B in the TTM. This combination shows that neither revenue growth nor scale has reliably translated into gross-profit leverage.

For a project-heavy content business, the most important margin driver is not merely aggregate sales growth but the ratio of monetisable lifetime value to production and acquisition cost. A durable franchise can be licensed repeatedly, localised, adapted into games, sold as merchandise, and re-released, allowing later revenue to carry lower incremental cost. A one-off title without audience resonance has the reverse profile. Gross-margin expansion therefore requires at least one of: fewer low-return projects, higher licensing/royalty mix, stronger pricing for rights, better content reuse, lower production cost, or a sufficiently successful slate that fixed creative costs are spread across more monetisation events.

Reinvestment needs should be judged at the slate level. Cutting content cost can lift near-term gross margin but also reduce the pipeline that creates future licensing and merchandise. Conversely, rapid production expansion can lift reported revenue while destroying gross profit, which is what the latest TTM superficially resembles. The model therefore does not extrapolate 48.7% estimated TTM revenue growth. It deliberately slows revenue while allowing gross margin to recover only gradually and conditionally.

There is also an accounting-perimeter caution. Tencent's VAS segment contains Social Networks and digital-content services, so not every Tencent Video subscription or content monetisation activity should be presumed to sit in Others. Others includes the categories disclosed by Tencent, not a reconstructed “all entertainment” segment. Using peer streaming economics as if they were exact Others economics would therefore be a category error; peers serve only as stress-test evidence for content volatility.

4. Competitive dynamics

Others competes in at least three overlapping arenas: audience attention, premium content and distribution, and intellectual-property extensions. On long-form video and film, the relevant competitive set includes iQIYI, Alibaba's Youku ecosystem, Mango TV, Bilibili, major film studios and distributors, and short-video platforms such as Douyin and Kuaishou that compete for time and increasingly for micro-drama budgets. On licensing and merchandise, Tencent also competes with entertainment IP owners, game publishers, animation studios, toy and collectible brands, and global franchises. The boundaries are porous because a successful title can become a streaming series, game, brand collaboration, live experience, or consumer product.

Industry evidence supports growth but also severe cyclicality. China's National Film Administration reported 2025 national box office of CNY51.832B, up 21.95%, with 1.238B admissions and domestic films at 79.67% of box office ([official 2025 release](https://www.chinafilm.gov.cn/xwzx/gzdt/202601/t20260105_944809.html)). By 31 August 2026, year-to-date box office was CNY28.21B; the summer season grew 4.45% in box office and 5.86% in admissions, with lower average ticket prices ([official 2026 summer update](https://www.chinafilm.gov.cn/xwzx/hyzx/202609/t20260902_1006502.html)). Those figures show that a powerful hit year can coexist with a much less dramatic following-year cadence. They do not map directly to Tencent's revenue, but they argue against assuming a smooth double-digit market growth rate.

The broader audiovisual data are even more instructive. China's National Radio and Television Administration reported that 2025 nationwide radio, television, and online audiovisual industry revenue grew 5.22%. Within actual operating revenue, short video and livestreaming grew 11.28%, but user-paid and programme-copyright services grew only 0.43%, advertising fell 0.39%, and programme production and sales fell 3.45%; technology services, games, theme parks, derivatives, and other revenue grew 11.02% ([NRTA 2025 statistical bulletin](https://www.nrta.gov.cn/art/2026/5/13/art_113_73265.html)). That mix is almost a map of the opportunity and threat facing Others: conventional content monetisation is mature, while derivatives and new formats are healthier, and short video competes for the same audience.

Peer economics reinforce the risk. iQIYI reported FY2025 revenue down 7%, membership revenue down 5%, content-distribution revenue down 12%, and statutory operating margin of only 1%; management attributed the membership

decline to a lighter content slate ([iQIYI FY2025 results](https://ir.iqiyi.com/news-releases/news-release-details/iqiyi-announces-fourth-quarter-and-fiscal-year-2025-financial)). The lesson is not that Tencent Others should match iQIYI-its perimeter is different-but that premium content demand and profitability remain highly sensitive to slate quality and cost. No scale-only margin assumption is justified.

Pricing power belongs to specific intellectual property, not to the segment as a whole. A must-see title or recognisable franchise can command favourable licensing, distribution, or merchandise terms. Generic content cannot: platforms have abundant alternatives, consumers can shift attention at negligible cost, and advertisers or licensees can redirect budgets. Tencent's potential advantage is distribution and cross-promotion through Weixin, games, social media, payments, Mini Programs, and advertising technology. Yet a distribution advantage cannot turn weak content into durable IP; it primarily lowers the cost of finding audiences and partners.

Entry barriers are moderate at the portfolio level and high at the hit level. Capital, talent relationships, regulatory approvals, distribution access, data, and brand reduce the number of credible large-scale competitors. But creative success is not mechanically repeatable, and smaller studios can produce a breakout title. The segment therefore lacks software-like lock-in. Its strongest barrier is the ability to combine IP creation with Tencent's enormous consumer ecosystem, while its weakest point is that consumer attention does not owe loyalty to the corporate owner.

Regulation is a structural competitive variable. Film and audiovisual products require approvals and operate within content standards; release timing can move, imported content access can change, and online formats can be regulated differently. Regulation may favour large compliant platforms because they can invest in review and distribution systems, but it can also delay or narrow monetisation. The model treats this as a reason for conservative terminal growth and a broad margin range rather than as a predictable advantage.

5. Moat at the segment level

Others has a **conditional, narrow moat**, not a standalone wide moat. The protectable assets are Tencent's ecosystem distribution, user reach, data-informed promotion, relationships with creators and licensees, financial capacity to fund a slate, and the option to extend successful IP across games, social content, advertising, payments, Mini Programs, and merchandise. Those assets can increase the number of monetisation channels available to a winning title and reduce dependence on a single external distributor.

However, the segment's financial record does not show that these assets consistently protect gross margin. Five-year gross margin moved from 13.25% to negative territory, back to positive single digits, and then to -21.81% in the TTM. A moat that cannot keep cost below revenue in multiple periods is not yet demonstrated in accounting returns. The ecosystem may improve the upside of hits, but it has not eliminated the downside of weak slates or investment phases.

The most durable advantage is cross-media optionality. Tencent can potentially originate or acquire a story, test audience interest, promote it in social channels, build a game or digital-content extension, collect payments, sell advertising around engagement, and license physical goods. Competitors can reproduce individual steps, but few have the same combination of communication, gaming, advertising, and payments. The challenge is evidence: Tencent does not disclose how much Others revenue comes from such cross-media franchises or whether the segment earns a superior return on those projects.

The weakest moat element is customer switching cost. Viewers can change services, films, creators, or shopping categories instantly. Distributors and licensees can bid across many rights owners. Merchandising is vulnerable to fashion cycles and imitation. Creative talent can work across studios. Thus, moat strength resides in a portfolio of recognised IP and distribution capabilities, not in contractual lock-in. If Tencent must continuously spend heavily merely to keep revenue flat, the segment is a reinvestment treadmill rather than a compounder.

Over five to ten years, AI is a two-sided wildcard. Generative tools can lower pre-production, localisation, visual-effects, and marketing costs, improving gross economics. They can also flood the market with acceptable content, reduce scarcity, intensify attention competition, and create rights disputes. Others benefits only if Tencent uses AI to reduce cost or increase hit probability without eroding perceived quality and IP ownership. The base case assumes modest workflow benefit late in the horizon, not a dramatic AI margin windfall.

The moat verdict is therefore **fragile but potentially strategic**. Others does not independently meet a high-confidence compounder standard. Its value lies in optionality around Tencent-owned IP and ecosystem distribution. The operating model requires proof through sustained positive gross profit; until then, the segment should receive no premium assumption merely because it sits inside Tencent.

6. Historical growth rates - cleared data only

Tencent discloses no product-level dollars within Others. The only valid historical row is the aggregate category “Film, television, licensing, merchandise and other residual activities.” All figures below reproduce the cleared data package, and no external source is used for Tencent historicals.

Product / sub-segment	FY2021 revenue	FY2022 revenue	FY2023 revenue	FY2024 revenue	FY2025 revenue	FY2022-FY2025 CAGR	Most recent FY YoY	Data package cite
Film, television, licensing, merchandise and other residual activities	CNY7.685B [§3 Others revenue row, line 157]	CNY7.194B [§3 Others revenue row, line 157]	CNY5.395B [§3 Others revenue row, line 157]	CNY7.759B [§3 Others revenue row, line 157]	CNY8.077B [§3 Others revenue row, line 157]	3.93% [calculated from §3 line 157]	4.1% [§3 Others YoY row, line 158]	data_package §3, Others table, lines 155-160; §4 Others row, line 238

The three-year CAGR uses FY2022 to FY2025, exactly three annual intervals: `(8.077 / 7.194)^(1/3) - 1 = 3.93%`. The longer FY2021-FY2025 CAGR was only 1.25%, underscoring that the FY2025 revenue level barely exceeded FY2021 despite the large interim swings.

Historical arithmetic checks, all within the required 2% tolerance:

- FY2021 to FY2022: CNY7.685B × `(1 - 6.4%)` = CNY7.193B versus reported CNY7.194B; difference 0.01%.
- FY2022 to FY2023: CNY7.194B × `(1 - 25.0%)` = CNY5.396B versus reported CNY5.395B; difference 0.01%.
- FY2023 to FY2024: CNY5.395B × `(1 + 43.8%)` = CNY7.758B versus reported CNY7.759B; difference 0.01%.
- FY2024 to FY2025: CNY7.759B × `(1 + 4.1%)` = CNY8.077B versus reported CNY8.077B; difference below 0.01%.

The latest TTM growth estimate is shown separately because it is back-solved from quarterly YoY rates rather than disclosed as an aggregate:

Quarter	Current revenue	Disclosed YoY	Back-solved prior-year revenue	Tie-out
Q3 2025	CNY2.593B [§5 line 266]	83% [§5 line 266]	CNY1.417B estimated	1.417 × 1.83 = 2.593 ✓
Q4 2025	CNY2.517B [§5 line 270]	10% [§5 line 270]	CNY2.288B estimated	2.288 × 1.10 = 2.517 ✓
Q1 2026	CNY2.292B [§5 line 274]	103% [§5 line 274]	CNY1.129B estimated	1.129 × 2.03 = 2.292 ✓
Q2 2026	CNY2.520B [§5 line 278]	37% [§5 line 278]	CNY1.839B estimated	1.839 × 1.37 = 2.520 ✓
TTM	CNY9.922B [sum of cited rows]	48.7% estimated	CNY6.674B estimated	6.674 × 1.4868 = 9.922 ✓

These back-solved values are used only to contextualise the current growth spike. They are not substituted into Tencent's five-year reported revenue series and are not treated as disclosed product dollars.

7. Management guidance - cleared data-package excerpts

The data package contains no revenue, gross-margin, slate, release, licensing, or merchandise guidance specifically for Others. It places the following comments under “Others and corporate allocation,” so each is reproduced and interpreted, but none is converted into a segment forecast without a direct bridge.

Data package row	Verbatim quote	Topic	Segment-model interpretation
§6, line 336; FY2025 release; Ma Huateng	“fund our increasing investments in AI”	Reinvestment	Group cash allocation may compete with marginal content investment; no Others budget or return target is provided.
§6, line 337; Q1 FY2026 call; Shek Hon Lo	“reduced share count after our share buybacks”	EPS	Relevant to consolidated EPS, not Others revenue or gross profit; no segment adjustment is made.
§6, line 338; Q2 FY2026 call; James Mitchell	“capital allocation will be dynamic”	Capex and buybacks	Group compute needs may crowd out optional projects, but allocation to Others is undisclosed.
§6, line 339; Q2 FY2026 call; Chi Ping Lau	“only keep on investing if it generates a great return”	Compute discipline	A qualitative capital hurdle is encouraging but unquantified and directed to compute, not the Others slate.

Data package row	Verbatim quote	Topic	Segment-model interpretation
§6, line 340; Q2 FY2026 release; Tencent management	“substantially stepped up our procurement of compute”	Infrastructure	This depresses group FCF; it is not allocated to Others gross margin.
§6, line 341; June 2026 Corporate Overview; Tencent	“Value for Users, Tech for Good”	Strategic constraint	Monetisation operates within user-value and regulatory constraints; no numerical forecast anchor.

Management has not provided the guide needed to validate a rapid Others recovery. That absence is consequential because the current TTM gross loss is large relative to segment revenue. The model therefore uses historical experience and external industry base rates, not an assumed management target.

[DATA GAP: No management guidance specific to Others revenue, film or television slate, licensing or merchandise mix, content cost, gross profit, gross margin, or break-even timing appears in data_package §6.]

8. Forward growth assumptions - TTM to TTM+5y

The forecast starts with CNY9.922B of TTM revenue at 2026-06-30 and compounds for exactly five calendar years to 2031-06-30. Because Tencent discloses no dollar split inside Others, the model has one aggregate modeled line rather than a true product build. The cases are explicitly non-uniform: they include a first-year normalisation from the 48.7% estimated TTM spike, then different annual paths as the release slate, mature copyright market, derivative opportunities, and competitive pressure evolve.

Base case growth assumptions

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Film, television, licensing, merchandise and other residual activities	3.93%	48.7% estimated TTM	None; [DATA GAP]	3.70%	Revenue growth slows to 4%, 4%, 4%, 3.5%, and 3%. This converges toward the 3.93% FY2022-FY2025 CAGR and is consistent with mature user-paid/copyright growth, partly offset by derivatives and broader cultural-sector growth.

The base case refuses to extrapolate the current spike. It assumes Tencent preserves roughly its elevated TTM revenue base rather than giving all of it back, but growth quickly resembles the segment's historical and industry rate. The NRTA's 0.43% growth in user-paid and programme-copyright services and -3.45% in programme production/sales constrain the core, while 11.02% growth in technology, theme parks, derivatives, and other activities provides an offset. The net 3%-4% path is intentionally mundane.

Bull case growth assumptions

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Film, television, licensing, merchandise and other residual activities	3.93%	48.7% estimated TTM	None; [DATA GAP]	7.20%	Growth runs 7%, 8%, 8%, 7%, and 6% as a successful multi-year slate and cross-media IP extensions outperform the segment's history without extrapolating the 48.7% TTM spike.

The bull case requires repeatable IP rather than a one-quarter hit. It is supported directionally by 2025 cultural-enterprise revenue growth of 7.4% and content creation/production growth of 13.5% in China's National Bureau of Statistics survey ([NBS 2025 culture release](https://www.stats.gov.cn/english/PressRelease/202602/t20260202_1962422.html)), plus stronger derivatives and IP extensions. It is still far below current estimated growth because the segment has never demonstrated a durable high-growth base.

Bear case growth assumptions

Product	3-year historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Film, television, licensing, merchandise and other residual activities	3.93%	48.7% estimated TTM	None; [DATA GAP]	-0.23%	Revenue falls 5% in year one as the spike reverses, then grows only 1% annually. Short-video substitution, slate underperformance, and mature copyright demand leave terminal revenue slightly below TTM.

The bear path is not a collapse. The segment has Tencent's distribution and financial backing, and the external market remains large. But it assumes the current TTM surge was driven by low-quality volume or timing and therefore does not create a higher durable base. It resembles the FY2021-FY2025 record, during which revenue grew only 1.25% annually despite large year-to-year swings.

Annual revenue cadence

Case	TTM 2026-06-30	TTM+1	TTM+2	TTM+3	TTM+4	TTM+5, 2031-06-30	Five-year CAGR
Bear	9.922	9.426	9.520	9.615	9.712	9.809	-0.23%
Base	9.922	10.319	10.732	11.161	11.552	11.898	3.70%
Bull	9.922	10.617	11.466	12.383	13.250	14.045	7.20%

All amounts are CNY billions. The year-by-year path is the thesis-consistency check: no scenario treats 48.7% estimated TTM growth as sustainable, and each case changes through time rather than applying one uniform rate. The base and bull cases assume that a more stable revenue mix replaces extraordinary project timing; the bear case imposes a first-year reset.

9. Forward Gross profit margin assumptions

The starting margin is the exact sealed **Gross profit** margin of -21.81%: CNY-2.164B divided by CNY9.922B. This is not operating margin. No corporate expense or below-line adjustment is inserted. Each case models the path by which segment cost of revenue moves relative to segment revenue.

Case	TTM margin	TTM+1	TTM+2	TTM+3	TTM+4	TTM+5 margin	Specific mechanism
Bear	-21.81%	-25.0%	-20.0%	-15.0%	-12.0%	-10.0%	A weak slate and low-value production keep content cost above revenue. Project pruning improves loss intensity after year one, but no licensing-rich mix emerges.
Base	-21.81%	-25.0%	-18.0%	-10.0%	-4.0%	0.0%	With three consecutive loss-making quarters and no Others-specific guidance, the first year remains loss-making near the recent run rate. Project pruning, cost/revenue timing normalisation and modest reuse/licensing benefit narrow losses, but break-even is deferred to the five-year horizon.
Bull	-21.81%	-12.0%	-3.0%	5.0%	10.0%	12.0%	Successful IP supports licensing and merchandise mix, content is reused across media, and production efficiency improves. Terminal margin remains below the FY2021 peak of 13.25%.

Every case changes margin by more than 100 basis points, so the mechanism must be concrete. The bear case's initial deterioration assumes the revenue spike brought committed cost that cannot immediately be removed. Losses then narrow as Tencent stops funding projects that fail its return hurdle, but persistent competition and short-video substitution keep terminal gross margin negative. The base case does not assume an immediate rebound from a TTM that includes three consecutive loss-making quarters: gross margin remains -25% in year one, then improves only as low-return projects are pruned, delivery cost is better matched to monetisation, and content reuse or licensing offsets production cost. Even that CNY2.164B recovery to break-even is an analyst scenario rather than a management plan because Tencent discloses no Others-specific mix, cost, slate, impairment or break-even target. The bull case requires both a better slate and a higher-margin licensing/merchandise contribution; scale alone is insufficient.

The terminal levels are anchored in actual history but constrained by disclosure. A 0% base gross margin is below FY2025's 3.62% and far below FY2021's 13.25%; it assumes cost parity only at the horizon rather than a proven return to positive economics. A 12% bull margin approaches but does not exceed the FY2021 peak and therefore requires evidence of a licensing-rich mix or repeatable IP extensions. A -10% bear margin is better than the current -21.81% but worse than FY2022's -3.95%, reflecting a segment that survives but does not repair its project selection. These anchors avoid both permanent extrapolation of the current trough and an unsupported automatic return to positive economics.

The annual **Gross profit** output is:

Case	TTM+1 revenue	TTM+1 GP	TTM+2 revenue	TTM+2 GP	TTM+3 revenue	TTM+3 GP	TTM+4 revenue	TTM+4 GP	TTM+5 revenue	TTM+5 GP
Bear	9.426	-2.357	9.520	-1.904	9.615	-1.442	9.712	-1.165	9.809	-0.981
Base	10.319	-2.580	10.732	-1.932	11.161	-1.116	11.552	-0.462	11.898	0.000
Bull	10.617	-1.274	11.466	-0.344	12.383	0.619	13.250	1.325	14.045	1.685

All amounts are CNY billions; gross profit equals revenue multiplied by the case margin shown above. The model does not forecast product-level margins because the product mix is undisclosed. Any such split would create false precision.

10. Segment rollup - bottom-up and reconciled

Because only one dollar-disclosed projection line exists, the rollup has one row. It is mechanically reconstructable: the aggregate modeled line equals segment revenue, and its gross margin produces segment gross profit. This is an identity check, not independent bottom-up triangulation; Tencent's sparse disclosure prevents a component-level revenue, cost or mix bridge.

Bear case product / sub-segment	TTM revenue	TTM+5 revenue	TTM+5 Gross profit margin	TTM+5 Gross profit
Film, television, licensing, merchandise and other residual activities	9.922	9.809	-10.0%	-0.981
Others total	**9.922**	**9.809**	**-10.0%**	**-0.981**

Base case product / sub-segment	TTM revenue	TTM+5 revenue	TTM+5 Gross profit margin	TTM+5 Gross profit
Film, television, licensing, merchandise and other residual activities	9.922	11.898	0.0%	0.000
Others total	**9.922**	**11.898**	**0.0%**	**0.000**

Bull case product / sub-segment	TTM revenue	TTM+5 revenue	TTM+5 Gross profit margin	TTM+5 Gross profit
Film, television, licensing, merchandise and other residual activities	9.922	14.045	12.0%	1.685
Others total	**9.922**	**14.045**	**12.0%**	**1.685**

Arithmetic checks:

- Bear revenue: `9.922 × 0.95 × 1.01 × 1.01 × 1.01 × 1.01 = 9.809`; gross profit: `9.809 × -10.0% = -0.981`.

- Base revenue: `9.922 × 1.04 × 1.04 × 1.04 × 1.035 × 1.03 = 11.898`; gross profit: `11.898 × 0.0% = 0.000`.
- Bull revenue: `9.922 × 1.07 × 1.08 × 1.08 × 1.07 × 1.06 = 14.045`; gross profit: `14.045 × 12.0% = 1.685`.

Each aggregate-line sum equals the displayed segment total exactly before rounding, so the rollup residual is 0.0%, within the required 1% tolerance. The segment's effect on consolidated gross profit is asymmetric: the bull creates CNY3.849B more gross profit than the current TTM loss, the base recovers CNY2.164B to break-even, and even the bear improves by CNY1.183B while remaining loss-making. That recovery should not be mistaken for a standalone moat; much of it simply reflects mean reversion from an unusually poor starting period.

The probability-weighted terminal result uses 40% bear, 45% base, and 15% bull. Bear receives the largest tail weight because three consecutive quarters were loss-making, the latest two margins were -44.9% and -35.1%, and management has provided no Others-specific recovery guide; bull is lower because repeatable IP extensions and a licensing-rich mix are not disclosed. The resulting terminal values are CNY11.384B of revenue and CNY-0.140B of gross profit, or a -1.23% implied blended gross margin. The probability-weighted calculation is a diagnostic, not a fourth case. Synthesis should continue to carry the three discrete scenarios because the distribution is driven by hit outcomes and is not well represented by a single average.

11. Key risks and wildcards

[Bear] Slate underperformance and cost overhang. The clearest risk is that current negative gross margin reflects committed content cost whose revenue never arrives. If management continues to fund volume because strategic ecosystem benefits are not captured inside Others, the segment could remain structurally loss-making. The bear path assumes only gradual pruning; a worse outcome would preserve a margin near the current -20% range.

[Bear] Short-video and micro-drama substitution. NRTA data show short-video and livestream revenue growing much faster than user-paid/copyright services. Short formats can reduce time available for long-form film and television, alter advertiser demand, and reset production economics. Tencent participates in multiple formats elsewhere in its ecosystem, but that does not guarantee that Others captures the value.

[Bear] Regulatory and release-timing risk. Approval timing, content standards, distribution windows, imported-content policy, and youth or platform regulation can delay or reduce monetisation. Costs incurred before approval are difficult to recover. Large compliant operators may have process advantages, but the economic downside of a delayed project remains.

[Bear/Base] Disclosure opacity. Tencent does not disclose the sub-product mix, title economics, content assets, working capital, customer concentration, project impairments, or a loss-to-break-even plan. A reported revenue increase could come from low-margin principal sales while an apparent decline could merely reflect a project schedule. The absence of detail raises model error, prevents component-level triangulation, pushes base-case break-even to the five-year horizon, and justifies the wide terminal gross-margin range from -10% to 12%.

[Base/Bull] IP extension across the Tencent ecosystem. A successful title can be distributed, licensed, advertised, merchandised, and potentially extended into games or experiences. This is the main upside wildcard because each reuse event can add revenue at lower incremental creative cost. The bull case assumes a repeatable portfolio of such extensions; the base assumes only modest benefit.

[Bull] AI-assisted production efficiency. AI can lower localisation, pre-visualisation, effects, editing, customer-service, and marketing costs, or improve audience matching. The opportunity is margin expansion, not an extra revenue line. The risk is that cheaper production expands industry supply, compresses scarcity, creates copyright disputes, or encourages more low-return output.

[Bear/Bull] Hit concentration. A single franchise can make the bull case, while one expensive failure can dominate a segment this small. The quarterly margin range from +16.0% to -44.9% is evidence that annual averages hide substantial project concentration. Without title-level data, the forecast should be interpreted as an expected slate, not a precise recurring-revenue stream.

[Base] Capital-allocation competition. Tencent is funding substantial AI compute at group level. Dynamic capital allocation could limit marginal content spending, which would help loss control but may also weaken the future slate. No compute or corporate capex is assigned to Others; the risk is strategic crowding-out rather than a direct gross-margin expense.

[Bear] Merchandise inventory and channel risk. If Tencent acts as principal rather than licensor, physical goods bring inventory, markdown, return, logistics, and retail-channel risks. If Tencent predominantly licenses IP, those risks sit with partners and margin is higher. The undisclosed principal-agent mix is therefore a material sensitivity.

[Bull/Base] Industry recovery without pricing power. A healthy box office or cultural market can support project demand, but market growth does not ensure Tencent captures value. The 2025 box-office rebound was hit-led, while 2026 summer growth was modest. The base case therefore assumes low-single-digit revenue growth and positive but thin terminal gross margin rather than market-wide operating leverage.

Monitoring signals

The most useful hard signal is not revenue growth; it is **gross profit on the sealed basis**. A sustained improvement requires at least two consecutive reporting periods in which Others gross margin rises while revenue remains stable or grows. A second signal is evidence of separately disclosed licensing or merchandise contribution, which would reduce uncertainty about the high-margin component. A third is any management statement on break-even timing or project-return discipline specifically for Others. A fourth is whether annual revenue falls back toward the FY2025 range after the TTM spike. A fifth is whether the company changes the segment taxonomy, in which case the entire history must be recast before comparison.

Summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	CNY9.809B	Gross profit	-10.0%	CNY-0.981B	40%
Base	CNY11.898B	Gross profit	0.0%	CNY0.000B	45%
Bull	CNY14.045B	Gross profit	12.0%	CNY1.685B	15%

Others is too small and too opaque to warrant false precision, but it is too volatile to ignore. The evidence supports a low-single-digit base revenue CAGR, a base case that reaches only break-even at the five-year horizon, and a wide margin distribution whose probability-weighted outcome remains loss-making. The key forecast question is whether Tencent can convert a fast-growing but loss-making TTM slate into repeatable licensing and IP economics. Until positive gross profit persists and the company discloses a credible recovery bridge, the segment should be modeled as a strategic option with a cost-control burden, not as a proven compounder.

Tencent Holdings - Synthesis (Combined Earnings Model)

Production ER2 Stage S. All currency amounts are CNY billions unless explicitly stated otherwise. The model is a mechanical consolidation of the QFR/DR-cleared data package and the four peer-reviewed segment appendices. It does not reclassify an accounting line, fetch a replacement source, add an unexplained residual, or treat segment **Gross profit** as segment operating income. Research only; `trade_execution_authorized=false`.

The repaired company-wide scenario probabilities are **40% Bear / 50% Base / 10% Bull**. They are non-uniform, sum to 100%, and supersede the appendices' segment-level diagnostic weights for consolidated use. Base remains modal because current revenue and margin evidence is positive. Bear rises from 30% to 40% because the ordinary operating Bear does not fully express the discrete VIE/China-policy claim risk, potential loss of the agent-era interface, or the possibility that AI cost and capital returns crowd out both buybacks and dividends. Bull falls from 20% to 10% because its 10.44% revenue CAGR, 41.61% terminal operating margin, and 19x exit P/E must all occur together; it is a true tail, not a co-equal alternative to Base. These probabilities must remain unchanged in the rerun VP, gross returns, net-SGD, and probability-weighted terminal wealth unless Stage S is rerun again.

This Stage S repair invalidates the prior probability locks in `valuation_preflight.json`, `compounder_score.json`, and `compounder_score_audit.json`. Those downstream artifacts must be rerun in VP → CS → CSA order before publication. The discrete scenario EPS values and P/E eligibility remain unchanged; the probability-weighted outputs and all return diagnostics must use 40%/50%/10%.

Tail-risk underwriting added after RT

Approximately 57% of FY2025 revenue was generated by operating companies held through contractual arrangements rather than direct listed-company equity ownership. The contracts transferred surplus cash and were reviewed by independent directors and the auditor, but enforceability and direct ownership are not equivalent. A severe VIE or China-policy intervention could impair control, cash transfer, or the listed holder's claim even when operating revenue initially remains intact. There is no source-bound loss-given-event with which to haircut EPS or terminal value without fabrication, so the repair expresses this discontinuous risk through a higher Bear probability rather than an arbitrary balance-sheet plug.

The same Bear weight covers the related platform-agent tail. An external agent could own discovery and purchase intent while Tencent supplies messaging, payment, or compute rails at lower economics. Data-minimization, interoperability, gaming, financial-service, advertising, antitrust, or algorithm rules could accelerate that outcome. Tencent's Weixin graph and games portfolio survive in the modeled Bear, so the case is not liquidation; the 40% weight recognizes that the path to Bear can be abrupt and policy-driven rather than a smooth five-year fade.

AI cost and capital returns create a separate cash-conversion risk. H1 2026 issuer-defined capex of CNY84.720B already exceeded FY2025, and Q2 FCF was negative CNY13.8B. Management described capital allocation as dynamic and gave no quantitative AI payback, utilization, or incremental-ROIC hurdle. Base keeps the explicit two-year G&A burden, but Section 10 now tests a 400-basis-point terminal operating-margin miss and a joint no-buyback/zero-distribution capital-return path. These diagnostics do not replace Base; they establish the material downside that justifies the probability reweighting.

1. Anchors

- Today: **2026-09-09**.
- Fiscal year end: **December 31**.
- TTM anchor: **2026-06-30**, constructed exactly as **FY2025** − **H1 2025 + H1 2026**.
- Latest completed FY for historical tie-out only: **FY2025 ended 2025-12-31**.
- Horizon: **2031-06-30**, exactly **5.0 calendar years** after the TTM end; no row compounds for six fiscal years.
- Exact security: **XHKG:0700 Tencent ordinary shares**, HKD counter, one ordinary share per listed unit.
- Immutable valuation price: **HKD 434.00**, raw exchange close for the completed 2026-09-09 session. Raw quote source SHA-256: `54bc4389d76ec4bc5e98f257b793714bcfb3e4f90576dc27d055652b2f5b67ff`. QFR-sealed packet SHA-256: `76a39fb713315ff11314ea29388ed9945c5695a2befacba088c0ac0588c96a0b`. Actionability expiry: **2026-09-10T16:00:00+08:00**.

- Reporting currency: **CNY**. Quote currency: **HKD**. Session-date FX: **1.1689 HKD per CNY**, source date 2026-09-09, evidence SHA-256 `023595737d77c9697d766473dd703acfceb71ec3f06055a5bbd0a1e2d432805b`.
- Share basis: financial-statement diluted shares **9,163m** at 2026-06-30 × split factor **1.0** = quote-basis diluted financial shares **9,163m**. There was no intervening split. Split evidence SHA-256: `8546c448d867c03dae320921f1a691d36dfd27c49495855210c4bf281925195b`.
- Listed-unit bridge: depositary ratio **1.0** × share-class factor **1.0** = **1.0 financial share per listed unit**; 9,163m ÷ 1.0 = **9,163m listed-unit equivalents**.
- EPS conversion: `CNY EPS per quote-basis financial share × 1.0 financial share per listed unit × 1.1689 HKD/CNY = HKD EPS per listed unit`.
- Historical statutory bridge SHA-256: `7840cdbab10aee0c97531586ebcc1837b6470951d6963bf3ce5895e17a5ea922`. The installed validator returned `STATUTORY_BRIDGE_VALID`; `gate_manifest.json` contains QFR's identical seal and DR's durable `STATUTORY BRIDGE VERIFIED - CLEARED FOR FORECASTING` status.
- Insurer lane: **NOT TRIGGERED - issuer is not a P&C insurer or reinsurer**. No `insurer_return_bridge.json` is created.

The strict quote validator was run at 2026-09-09T19:15:03+08:00. It returned `QUOTE_PACKET_VALID` and the exact expected packet hash. The statutory validator independently returned the exact expected bridge hash. Both packets therefore remained immutable at model time.

2. Segment-level forward assumptions reproduced from reviewed appendices

The sealed common segment-profit metric is **Gross profit**. The table reproduces, rather than re-derives, the reviewed TTM anchors and terminal scenario endpoints. There are no inter-segment revenue eliminations.

Segment	Exact profit metric	TTM revenue	Bear TTM+5y rev	Base TTM+5y rev	Bull TTM+5y rev	Bear margin	Base margin	Bull margin	Reviewed source
Value Added Services	Gross profit	380.300	379.703	509.974	592.188	54.17%	62.80%	66.07%	`appendix_B_value_added_services.md` §§8-10
Marketing Services	Gross profit	159.094	178.265	253.580	305.521	52.00%	59.00%	62.00%	`appendix_B_marketing_services.md` §§8-10
FinTech and Business Services	Gross profit	239.163	289.419	338.009	383.392	47.35%	55.24%	57.93%	`appendix_B_fintech_business_services.md` §§8-10
Others	Gross profit/(loss)	9.922	9.809	11.898	14.045	-10.00%	0.00%	12.00%	`appendix_B_others.md` §§8-10

VAS is a disclosed three-product build. Its base terminal revenue is Domestic Games CNY255.113B + International Games CNY112.252B + Social Networks CNY142.609B = CNY509.974B. Its base gross profit is CNY169.650B + CNY67.912B + CNY82.713B = CNY320.275B versus CNY320.276B displayed, a CNY0.001B rounding difference. Bear terminal product revenue is CNY184.205B + CNY73.327B + CNY122.171B = CNY379.703B and product gross profit is CNY104.997B + CNY35.930B + CNY64.751B = CNY205.678B. Bull terminal revenue is CNY292.576B + CNY144.732B + CNY154.880B = CNY592.188B and gross profit is CNY201.877B + CNY93.352B + CNY96.026B = CNY391.255B.

FinTech and Business Services uses a disclosed aggregate anchor plus a clearly labelled analytical 85%/15% forward split between FinTech Services and Business Services. No historical product dollars are asserted. Bear terminal revenue is CNY241.432B + CNY47.987B = CNY289.419B and gross profit is CNY120.716B + CNY16.316B = CNY137.032B versus CNY137.031B displayed. Base revenue is CNY272.016B + CNY65.993B = CNY338.009B and gross profit is CNY155.049B + CNY31.677B = CNY186.726B. Bull revenue is CNY301.437B + CNY81.954B = CNY383.391B versus CNY383.392B displayed and gross profit is CNY177.848B + CNY44.255B = CNY222.103B. Every residual is display rounding below 0.01%.

Marketing Services and Others each use one aggregate dollar-disclosed financial line because product dollars are not disclosed. That one-line perimeter is intentional: inventing Video Accounts, Search, Mini Programs, film, licensing, or

merchandise starting values would create false precision. Their product-to-segment and weighted-margin checks are therefore identities rather than independent decompositions.

3. Combined revenue build

The combined TTM segment revenue is CNY788.479B. The QF consolidated statement is CNY788.483B; the CNY0.004B difference is 0.0005% and comes solely from appendix display rounding. No corporate elimination is inserted.

Line	Bear	Base	Bull
Sum of segment TTM+5y revenue	857.196	1,113.461	1,295.146
Corporate eliminations	0.000	0.000	0.000
Combined TTM+5y revenue	**857.196**	**1,113.461**	**1,295.146**
TTM 2026-06-30 to TTM+5y 2031-06-30 CAGR	1.685%	7.146%	10.435%

The annual company revenue cadence is the sum of the four reviewed segment cadences:

Case	TTM	Year 1	Year 2	Year 3	Year 4	TTM+5y
Bear	788.479	788.411	781.462	798.138	825.810	857.196
Base	788.479	856.465	923.883	989.019	1,053.175	1,113.461
Bull	788.479	885.158	988.505	1,092.412	1,196.067	1,295.146

The base first-forward-year increase is 8.62%. H1 2026 revenue of CNY401.243B versus H1 2025 revenue of CNY364.526B implies a 10.07% recent like-for-like growth rate. Applying 10.07% to the CNY788.483B consolidated TTM anchor gives CNY867.874B, versus modeled Year 1 revenue of CNY856.465B. The level difference is -1.31%, well inside the 10% recency tolerance and conservative to recent momentum.

4. Combined operating-income build

The segment gross-profit totals are carried directly into the statutory bridge. Selling and marketing, G&A, and other gains/(losses), net remain corporate/unallocated; the sealed operating-bridge array is empty. Every corporate line is projected separately.

Line	Bear	Base	Bull
Sum of segment TTM+5y Gross profit	434.426	656.614	804.466
Selling and marketing	-54.861	-63.467	-66.052
General and administrative	-167.153	-194.856	-202.043
Other gains/(losses), net	-2.000	0.000	2.571
Consolidated segment-profit metric	210.412	398.291	538.942
Operating bridge adjustments	0.000	0.000	0.000
Combined statutory TTM+5y operating income	**210.412**	**398.291**	**538.942**
Implied statutory operating margin	24.55%	35.77%	41.61%

Corporate driver	TTM anchor	Bear rule	Base rule	Bull rule	Source
Selling and marketing / revenue	6.04%	6.5%, 6.7%, 6.6%, 6.5%, 6.4%	6.1%, 6.0%, 5.9%, 5.8%, 5.7%	5.9%, 5.7%, 5.5%, 5.3%, 5.1%	Data package §3a driver ledger
G&A / revenue	18.16%	20.0%, 20.5%, 20.5%, 20.0%, 19.5%	19.0%, 19.2%, 18.8%, 18.2%, 17.5%	18.5%, 18.0%, 17.2%, 16.4%, 15.6%	Data package §3a; AI overlay and scaling rule
Other gains/(losses), net	CNY2.571B	loss each year; terminal -2.000	normalized to zero	sourced TTM-scale gains; terminal 2.571	Data package §3a fixed/zero-normalized rule
Operating bridge	Empty	zero	zero	zero	Sealed statutory bridge

The Bear case sustains a higher selling burden and G&A burden because weaker conversion, content launches, compliance, and underutilized AI capacity do not flex with revenue. The Base case permits a two-year AI burden before G&A scales to 17.5% of revenue. This is consistent with management's statement that the largest model-building compute phase is concentrated in 2026-27 and with H1 2026 capex already exceeding FY2025. The Bull case permits later leverage only after

revenue and gross-profit evidence arrives, but its endpoint now receives only 10% probability because the revenue, margin, and valuation achievements are jointly conditional. Capex itself is not deducted from operating income; depreciation and operating costs are reflected through the reviewed segment margins and the G&A path, while capital expenditure remains a cash-flow item for later return work. This avoids counting the AI investment twice.

The full operating cadence is:

Case / year	Revenue	Gross profit	Selling and marketing	G&A	Other op.	Statutory OI
Bear Y1	788.411	430.056	-51.247	-157.682	-3.000	218.127
Bear Y2	781.462	409.298	-52.358	-160.200	-3.000	193.740
Bear Y3	798.138	410.753	-52.677	-163.618	-2.500	191.958
Bear Y4	825.810	421.720	-53.678	-165.162	-2.500	200.380
Bear Y5	857.196	434.426	-54.861	-167.153	-2.000	210.412
Base Y1	856.465	486.845	-52.244	-162.728	0.000	271.872
Base Y2	923.883	529.467	-55.433	-177.386	0.000	296.648
Base Y3	989.019	572.428	-58.352	-185.936	0.000	328.140
Base Y4	1,053.175	615.518	-61.084	-191.678	0.000	362.756
Base Y5	1,113.461	656.614	-63.467	-194.856	0.000	398.291
Bull Y1	885.158	511.596	-52.224	-163.754	1.000	296.617
Bull Y2	988.505	581.380	-56.345	-177.931	1.500	348.604
Bull Y3	1,092.412	654.795	-60.083	-187.895	2.000	408.817
Bull Y4	1,196.067	730.114	-63.392	-196.155	2.500	473.067
Bull Y5	1,295.146	804.466	-66.052	-202.043	2.571	538.942

5. Net income and EPS build

Below-line classifications are unchanged from the sealed packet. Interest income and finance cost are projected separately from the TTM liquid-asset and debt anchors. Investment gains and associates/JVs remain separate non-operating lines. To keep the EPS numerator coherent with the official historical denominator, the model also preserves NCI and the diluted-numerator adjustment visible in `quant_foundation.md` P3/P4. TTM consolidated profit was CNY241.401B, parent profit CNY235.508B, and the diluted numerator CNY234.096B.

Line	Bear	Base	Bull
Combined statutory TTM+5y OI	210.412	398.291	538.942
Interest income	9.500	20.400	29.440
Finance costs	-20.160	-14.520	-11.100
Net interest income/(expense)	-10.660	5.880	18.340
Net investment gains/(losses)	-10.000	12.000	30.000
Associates and JVs	0.000	18.000	35.000
Other income total	-10.000	30.000	65.000
Pre-tax income	189.752	434.171	622.282
Tax rate	20.00%	18.00%	17.00%
Income tax	-37.950	-78.151	-105.788
Consolidated net income	151.802	356.020	516.494
NCI at 2.5% of consolidated NI	-3.795	-8.901	-12.912
Parent-attributable NI	148.007	347.120	503.582
Diluted-numerator adjustment at 0.6% of parent NI	-0.888	-2.083	-3.021
Diluted ordinary-share earnings numerator	**147.119**	**345.037**	**500.560**
Quote-basis diluted financial shares, m	8,917.856	8,767.696	8,684.067
EPS, CNY per quote-basis financial share	16.4971	39.3532	57.6412

Line	Bear	Base	Bull
Financial shares per listed unit	1.0000	1.0000	1.0000
EPS, CNY per listed unit	16.4971	39.3532	57.6412
FX, HKD per CNY	1.1689	1.1689	1.1689
EPS, HKD per listed unit	**19.2835**	**46.0000**	**67.3768**

The terminal liquid-assets / gross-debt assumptions are CNY380B / CNY560B in Bear, CNY680B / CNY440B in Base, and CNY920B / CNY370B in Bull. Applied terminal yields/rates are 2.5%/3.6%, 3.0%/3.3%, and 3.2%/3.0%, respectively. This reproduces terminal interest income and finance cost without a net-debt plug. Investment gains use -CNY10B / CNY12B / CNY30B and associates/JVs use CNY0B / CNY18B / CNY35B. These are bounded by the TTM CNY19.235B investment-gain and CNY8.313B associate anchors and the FY2025 CNY10.168B/CNY23.740B observations. Bear deliberately removes recurring portfolio support; Bull requires both a stronger portfolio and associate recovery.

NCI is held at 2.5% of post-tax consolidated profit, close to the TTM 2.44%. The diluted-numerator adjustment is held at 0.6% of parent profit, close to the TTM CNY1.412B difference between parent profit and diluted numerator. These percentages are forecast conventions, not plugs: they are displayed separately and never reclassified into operating income.

5a. Return-method input bridge

S does not select the primary valuation method. It supplies method inputs and explicitly records unavailable terminal claims. P/E is fully supportable from reconciled statutory diluted EPS. EV/NOPAT must not control unless VP obtains and locks every missing claim-perimeter path; PB-ROE is not the natural primary method here and Stage S has not built a parent-common-equity roll-forward.

Return-method input at 2031-06-30	Bear	Base	Bull	Source / status
Statutory operating income	210.412	398.291	538.942	Section 4 mechanical bridge
Normalized cash tax rate	20.00%	18.00%	17.00%	Data package §3a; historical 16.78%-17.11%, stressed Bear
Normalized NOPAT	168.330	326.599	447.322	OI × (1 – cash tax rate)
Cash and equivalents	165.9	296.9	401.7	Diagnostic 43.66% of projected liquid pool, matching TTM mix
Term deposits / non-operating financial assets	214.1	383.1	518.3	Remainder of projected liquid pool
Gross borrowings and notes	560.0	440.0	370.0	TTM CNY452.963B anchor; explicit scenario path
Lease liabilities	Unavailable	Unavailable	Unavailable	TTM CNY18.865B sourced; no reviewed terminal path
Preferred equity	Unavailable	Unavailable	Unavailable	No complete terminal senior-claim schedule upstream
Minority-interest carrying claim	Unavailable	Unavailable	Unavailable	Earnings allocation modeled; terminal balance not projected upstream
Other senior claims	Unavailable	Unavailable	Unavailable	No complete terminal schedule upstream
Separately valued non-operating assets	Unavailable	Unavailable	Unavailable	No double-count-safe terminal valuation supplied upstream
Diluted listed-equivalent shares, m	8,917.856	8,767.696	8,684.067	Section 6; factor 1.0

The diagnostic cash split uses the TTM liquid pool of CNY473.929B: CNY206.930B cash and CNY266.999B of current/non-current deposits, making cash 43.66% of the pool. For the terminal diagnostic, that constant mix yields approximately CNY165.9B, CNY296.9B, and CNY401.7B of cash in Bear/Base/Bull. The split is not an audited terminal claim bridge and must not be mistaken for one. Because lease liabilities, terminal NCI balance, other senior claims, and double-count-safe separately valued assets are unavailable, **EV/NOPAT is not eligible to control on this Stage S record**.

6. Share-count path

The path starts from the packet's 9,163m quote-basis diluted financial shares. Repurchases use explicit CNY cash divided by an explicit CNY average price. SBC issuance uses the disclosed TTM CNY23.309B equity-settled SBC divided by the same average price as a transparent approximation. The legal and diluted denominators remain distinct; the path is never run in ADR units.

Case / year	Starting shares, m	Buyback, CNY B	Avg price, CNY	Shares retired, m	SBC issuance, m	Ending shares, m
Bear Y1	9,163.000	35.0	350	100.000	66.597	9,129.597
Bear Y2	9,129.597	35.0	340	102.941	68.556	9,095.212
Bear Y3	9,095.212	40.0	350	114.286	66.597	9,047.523
Bear Y4	9,047.523	45.0	365	123.288	63.860	8,988.096
Bear Y5	8,988.096	50.0	380	131.579	61.339	8,917.856
Base Y1	9,163.000	50.0	380	131.579	61.339	9,092.761
Base Y2	9,092.761	55.0	420	130.952	55.498	9,017.306
Base Y3	9,017.306	60.0	460	130.435	50.672	8,937.543
Base Y4	8,937.543	65.0	500	130.000	46.618	8,854.161
Base Y5	8,854.161	70.0	540	129.630	43.165	8,767.696
Bull Y1	9,163.000	60.0	420	142.857	55.498	9,075.640
Bull Y2	9,075.640	70.0	500	140.000	46.618	8,982.258
Bull Y3	8,982.258	80.0	580	137.931	40.188	8,884.515
Bull Y4	8,884.515	90.0	670	134.328	34.790	8,784.977
Bull Y5	8,784.977	100.0	760	131.579	30.670	8,684.067

Forward identities are exact at full precision. Bear: 9,163.000 + cumulative 326.950m SBC − cumulative 572.093m retirements = 8,917.856m. Base: 9,163.000 + 257.292m − 652.596m = 8,767.696m. Bull: 9,163.000 + 207.764m − 686.697m = 8,684.067m. Displayed residuals are below 0.001m.

Historical calibration is deliberately disclosed. TTM repurchase cash was CNY61.044B and TTM SBC was CNY23.309B. At the current CNY price equivalent of HKD434.00 ÷ 1.1689 = CNY371.29, those cash values imply approximately 164.4m retired shares and 62.8m SBC-equivalent shares, a net reduction of about 101.6m. The official weighted diluted count fell only 45m from FY2025's 9,244m to the reconstructed TTM 9,199m because a weighted-average denominator captures timing and other award effects, while the packet's current financial-statement basis is 9,163m. This timing distinction explains the non-identity; the forward schedule avoids mixing those bases by starting from the packet as required and applying every annual flow explicitly. The Base cash path is below the FY2024 CNY102.3B peak and around the FY2025/TTM run rate, consistent with management's statement that AI compute can crowd out repurchases.

RT's capital-return challenge is now explicit. With **no Base buybacks**, but the same disclosed-SBC-equivalent issuance path, terminal diluted shares are `9,163.000 + 257.291647 = 9,420.291647m`. Holding the Base diluted earnings numerator constant gives HKD42.81330182 EPS instead of HKD45.99997465. For the downstream joint return sensitivity, cumulative distributions are also set to **HKD0.00**. S does not calculate shareholder IRR, but it freezes these no-buyback shares and zero distributions so CS can reproduce RT's material return impact without changing the P/E method.

7. P/E 15 entry-price test

Required terminal EPS at HKD434.00 is `434.00 ÷ 15 = HKD28.9333` per listed unit.

Case	TTM+5y EPS, HKD	EPS × 15, HKD	Packet price, HKD	Cushion	Pass?
Bear	19.2835	289.2518	434.00	-33.35%	FAIL
Base	46.0000	689.9996	434.00	58.99%	PASS
Bull	67.3768	1,010.6519	434.00	132.87%	PASS

The confident Base case controls the binary gate. Because Base EPS × 15 exceeds the immutable packet price, **the P/E 15 gate is PASS with a 58.99% cushion**. The Bull result does not substitute for Base. Bear fails and shows that the gate is sensitive to prolonged gross-margin and corporate-cost pressure.

8. Reflexivity checks

At the TTM anchor, the four segment revenues sum to CNY788.479B versus consolidated revenue of CNY788.483B. The residual is CNY-0.004B, or -0.0005%, comfortably within 2%. The four sealed gross-profit lines sum exactly: CNY235.215B + CNY91.069B + CNY122.665B − CNY2.164B = CNY446.785B. Adding corporate/unallocated items of CNY-47.663B selling and marketing, CNY-143.150B G&A, and CNY2.571B other gains reproduces statutory TTM operating income of CNY258.543B with zero residual.

For FY2025, sealed segment gross profit is CNY222.296B + CNY83.389B + CNY116.616B + CNY0.292B = CNY422.593B. Adding CNY-41.727B selling and marketing, CNY-136.127B G&A, and CNY-3.177B other losses gives CNY241.562B statutory operating income exactly. FY2025 revenue is CNY751.766B and its segment revenue sum is also CNY751.766B. Both historical anchors therefore pass the reported-financial and statutory-bridge tie-out without a plug.

9. Latest-interim bridge reconciliation

The cumulative interim bridge is triggered. The periods are like-for-like six-month periods ending June 30:

Line, CNY M	FY2025	Less H1 2025	Add H1 2026	TTM 2026-06-30	Residual
Revenue	751,766	-364,526	401,243	788,483	0
Gross profit	422,593	-205,506	229,698	446,785	0
Statutory operating income	241,562	-117,670	134,651	258,543	0
Pretax income	277,249	-130,837	143,659	290,071	0
Consolidated net income	229,801	-105,769	117,369	241,401	0
Parent profit	224,842	-103,449	114,115	235,508	0
Diluted numerator	223,270	-102,949	113,775	234,096	0

TTM diluted shares are not added as if they were a flow. The official reconstruction is `9,244 − 0.5 × 9,253 + 0.5 × 9,163 = 9,199m`; `234,096 ÷ 9,199 = CNY25.447983` TTM diluted EPS. The model's forward share path instead begins at the sealed 2026-06-30 financial-statement basis of 9,163m. No half-year overlaps another period, and no standalone quarter is added on top of H1.

10. Sensitivity - variables that move the verdict

Two variables are held at Base while the third changes. EPS values use the same terminal corporate-cost ratios, below-line items, NCI treatment, diluted adjustment, 1.0 listed-unit factor, and 1.1689 HKD/CNY packet FX.

Variable	Down case	EPS, HKD	Change vs Base	Up case	EPS, HKD	Change vs Base
VAS revenue CAGR	-200 bps	44.0557	-1.9443	+200 bps	48.0939	+2.0940
FinTech/Business Services terminal Gross margin	-200 bps	45.2837	-0.7162	+200 bps	46.7162	+0.7162
Terminal diluted share count	-5%	48.4210	+2.4211	+5%	43.8095	-2.1905
Tax rate	-300 bps	47.6829	+1.6829	+300 bps	44.3170	-1.6829

RT identified two additional material diagnostics that are not symmetric one-variable nudges:

RT diagnostic	Terminal OI	Terminal OI margin	Terminal shares, m	EPS, HKD	EPS × 15	P/E-15 cushion	Distribution input for CS
Base as modeled	398.291	35.77%	8,767.696	46.0000	689.9996	58.99%	Existing Base schedule
Base terminal OI margin -400 bps	353.753	31.77%	8,767.696	41.2812	619.2176	42.68%	Existing Base schedule
Base no buybacks / zero distributions	398.291	35.77%	9,420.292	42.8133	642.1995	47.97%	HKD0.00 cumulative
Joint margin miss + no buybacks / zero distributions	353.753	31.77%	9,420.292	38.4214	576.3210	32.79%	HKD0.00 cumulative

The 400-basis-point margin miss subtracts `4.00% × CNY1,113.461B = CNY44.53844B` from Base OI. Holding Base net interest and other income fixed gives CNY389.632608B pretax, CNY319.49873856B consolidated NI, and CNY309.64220248B diluted ordinary-share earnings after the same 2.5% NCI and 0.6% diluted-numerator adjustments. That

produces HKD41.28117288 EPS. The P/E-15 entry-price gate still passes, but RT independently found the downstream Base gross IRR falls by 2.26 percentage points; the return effect is material.

The no-buyback path retains Base earnings and the same SBC-equivalent issuance schedule, so only the denominator changes in Stage S. The zero-distribution setting affects shareholder wealth, not EPS. RT found the joint no-buyback/zero-distribution return falls by 2.61 percentage points. That is plausible because H1 capex has accelerated, Q2 FCF was negative, and management explicitly said allocation is dynamic. The diagnostic therefore prevents the Base result from relying silently on both sustained repurchases and dividend growth while AI investment remains unproved.

The largest symmetric mechanical sensitivity is share count, closely followed by VAS revenue growth. The RT joint diagnostic falls further to HKD38.4214 because margin leverage and capital returns fail together. The P/E 15 gate still passes because HKD38.4214 remains above HKD28.9333, but the smaller cushion does not erase the material IRR impact. The principal operating monitoring variables are VAS title/cohort growth, whether AI cost permits the Base 35.77% terminal margin, and whether FCF permits diluted shares to keep falling while dividends continue. FinTech margin is important to gross profit, but a 200-basis-point terminal change moves consolidated EPS less than HKD1 because it applies to only one segment's revenue.

11. Combined earnings summary

Case	Revenue, CNY B	OI, CNY B	OI margin	Diluted earnings numerator, CNY B	EPS, HKD/listed unit	Probability	EPS × 15, HKD	vs. HKD434
Bear	857.196	210.412	24.55%	147.119	19.2835	40%	289.2518	-33.35%
Base	1,113.461	398.291	35.77%	345.037	46.0000	50%	689.9996	58.99%
Bull	1,295.146	538.942	41.61%	500.560	67.3768	10%	1,010.6519	132.87%
Probability-weighted EPS	1,029.124	337.205	32.77% diagnostic	281.422	37.4510	100%	561.7657	29.44%

Probability-weighted EPS is `40% × 19.28345163 + 50% × 45.99997465 + 10% × 67.37679550 = HKD37.45104753`. The probability-weighted revenue, OI, and diluted numerator rows are arithmetic scenario diagnostics; they are not a fourth operating case and must not be used to average scenario IRRs. Later return work must probability-weight terminal shareholder wealth and then calculate the exact-horizon CAGR. RT's replay found that changing only the weights from 30%/50%/20% to 40%/50%/10% lowers probability-weighted gross IRR by 3.75 percentage points; the rerun CS must independently reproduce the new expected-wealth result.

Tie-out checks

- **PASS - Reported-financial and statutory-bridge tie-out (TTM + FY2025).** TTM segment revenue CNY788.479B versus consolidated CNY788.483B leaves CNY-0.004B, -0.0005%. TTM gross profit CNY446.785B – CNY47.663B S&M – CNY143.150B G&A + CNY2.571B other gains = CNY258.543B statutory OI exactly. FY2025 gross profit CNY422.593B – CNY41.727B – CNY136.127B – CNY3.177B = CNY241.562B exactly. Sources: sealed `statutory_bridge.json`, `data_package.md` §§2-3a, and this appendix §§8-9.

- **PASS - NI / shares / listed-unit / FX = EPS.** Bear: CNY147.118703616B ÷ 8,917.856406m = CNY16.497092677; ×1.0×1.1689 = HKD19.283451630. Base: CNY345.037034359B ÷ 8,767.695906m = CNY39.353216404; ×1.1689 = HKD45.999974655. Bull: CNY500.560039673B ÷ 8,684.067356m = CNY57.641197280; ×1.1689 = HKD67.376795500. Sources: quote packet and §§5-6.

- **PASS - Segment sum at horizon.** Corporate revenue eliminations are zero. Bear CNY857.196B / CNY857.196B = 100.000%; Base CNY1,113.461B / CNY1,113.461B = 100.000%; Bull CNY1,295.146B / CNY1,295.146B = 100.000%. Source: reviewed segment §10 tables and this appendix §3.

- **PASS - Product-to-segment rollup.** VAS terminal product revenue residuals are 0.000% in all cases to displayed precision. FinTech residuals are no more than CNY0.001B, below 0.001%. Marketing Services and Others each use the sole dollar-disclosed aggregate line and therefore tie at 100.000%. Sources: all four reviewed appendix §10 tables and this appendix §2.

- **PASS - Weighted margin.** VAS Bear CNY205.678B / CNY379.703B = 54.17%, Base CNY320.276B / CNY509.974B = 62.80%, Bull CNY391.255B / CNY592.188B = 66.07%. FinTech Bear CNY137.031B / CNY289.419B = 47.35%, Base CNY186.726B / CNY338.009B = 55.24%, Bull CNY222.103B / CNY383.392B = 57.93%. Each agrees with the revenue-weighted product margins within 0.01%. Marketing and Others are one-line cases, so the multi-product conditional is not triggered. Sources: VAS and FinTech reviewed §§9-10.

- **PASS - Share count and security-unit path.** `9,163m × split factor 1.0 = 9,163m`; `9,163m ÷ (depositary ratio 1.0 × class factor 1.0) = 9,163m` listed equivalents. Five-year flow checks are: Bear `9,163.000 + 326.950 − 572.093 = 8,917.856m`; Base `9,163.000 + 257.292 − 652.596 = 8,767.696m`; Bull `9,163.000 + 207.764 − 686.697 = 8,684.067m`. Historical weighted-average timing is separately reconciled in §6 and is not mixed into the point-in-time forward path. Sources: quote packet, data package §7, management §3, and this appendix §6.

- **PASS - Growth plausibility.** VAS Base CAGRs are 7.99% Domestic Games versus 1.2×9.84%=11.81%; 7.20% International versus 1.2×18.26%=21.91%; and 2.30% Social Networks versus 1.2×2.99%=3.59%. FinTech aggregate is 7.16% versus 1.2×6.10%=7.32%; the faster Business Services analytical line is explicitly bounded against disclosed 20%-22% current growth and faster Alibaba/Baidu trajectories. Marketing is 9.77% versus 1.2×20.56%=24.67%. Others is 3.70% versus 1.2×3.93%=4.72%. No Base case breaches the rule. Sources: each reviewed appendix §§6, 8, and 10.

- **PASS - Historical arithmetic.** Every forward table uses five annual intervals from 2026-06-30 to 2031-06-30. Representative recomputations: VAS Base Domestic `173.700 ×1.10×1.09×1.08×1.07×1.06 = 255.113`; Marketing Base `159.094×1.14×1.11×1.09×1.08×1.07 = 253.580`; Others Base `9.922×1.04×1.04×1.04×1.035×1.03 = 11.898`. FinTech Base analytical products reconstruct CNY338.009B from their five-step paths. Endpoint residuals are below 1%; the largest visible residual is rounding below CNY0.001B. Sources: each reviewed appendix §§8 and 10.

- **PASS - Recency anchor.** H1 2026 versus H1 2025 consolidated revenue growth is `401.243 / 364.526 − 1 = 10.07%`. Applied to the CNY788.483B TTM level, that gives CNY867.874B. Base Year 1 is CNY856.465B, `856.465 / 867.874 − 1 = -1.31%`, inside ±10%. Source: QF P3/P4, data package §5, and this appendix §3.

- **PASS - Period and horizon integrity.** The exact interim bridge is FY2025 − H1 2025 + H1 2026 with identical January 1-June 30 coverage, no overlap, and zero residual for revenue, GP, OI, pretax, NI, parent profit, and diluted numerator. The forecast runs from 2026-06-30 to 2031-06-30, exactly 5.0 years. All segment growth rates and annual steps use those dates. Sources: QF P4, data package §3a, reviewed segment §§8-10, and this appendix §§1, 3, and 9.

- **PASS - Valuation, unit bridge, packet hashes, and probability arithmetic.** Recomputed packet hashes exactly match `76a39fb713315ff11314ea29388ed9945c5695a2befacba088c0ac0588c96a0b` and `7840cdbab10aee0c97531586ebcc1837b6470951d6963bf3ce5895e17a5ea922`; both validators cleared. XHKG:0700, HKD434.00, one ordinary share per listed unit, split 1.0, depositary/class factors 1.0/1.0, and 1.1689 HKD/CNY all reproduce. Bear/Base/Bull EPS×15 are HKD289.2518/HKD689.9996/HKD1,010.6519. Repaired probabilities sum `40%+50%+10%=100%`; weighted EPS is `0.40×19.28345163 + 0.50×45.99997465 + 0.10×67.37679550 = HKD37.45104753`. Cushions against HKD434.00 are -33.35%, 58.99%, and 132.87%; Base controls and passes. The prior 30%/50%/20% probability lock is superseded and downstream VP/CS/CSA must rerun.

SYNTHESIS CLEARED - 11/11 TIE-OUTS PASSED

P/E 15 gate: PASS - cushion 58.99%

Tencent Holdings - Compounder Score

Production ER2 Stage CS. Analysis date: **2026-09-09**. Exact security: **XHKG:0700 Tencent ordinary shares**. Reporting currency is CNY; quote and gross shareholder-return currency is HKD. Research only. No ranking, sizing, trade, message, or portfolio action is authorized; `trade_execution_authorized=false`.

1. Executive Verdict

Compounder Score: 68/100. Business Quality Score: 62/80. 20% Return Underwriting/Stretch Score: 6/20. Score-implied classification: Reject. This classification is diagnostic and does not mechanically determine the later ER2 or CIO verdict.

Tencent is a high-quality platform at an inadequate price for this rubric's unusually demanding 20% return hurdle. The evidence supports a durable current franchise: Weixin/WeChat had 1.439 billion combined MAU at Q2 2026; VAS, Marketing Services, and FinTech/Business Services produced TTM gross margins of 61.9%, 57.2%, and 51.3%; the five-observation FY2021-FY2025 cash-conversion record is strong; and diluted shares declined despite material stock compensation. The evidence does not support treating those strengths as a 20% expected-return opportunity at HKD434.00.

The controlling method is **P/E** in every scenario. The validator-cleared preflight locks comparable normalized-current P/E at 14.822519x, terminal statutory diluted EPS of HKD19.283451630 / HKD45.999974655 / HKD67.376795500, and exit P/Es of 10x / 15x / 19x. After explicit, counted-once dividends, gross local returns are **-12.98% Bear, 10.76% Base, 24.88% Bull, and 5.98% probability weighted**. The probability-weighted figure uses the repaired **40% Bear / 50% Base / 10% Bull** weights and is the CAGR of expected terminal wealth, not an average of scenario IRRs. The finite net-SGD diagnostic is **-15.03% / 10.01% / 25.75% / 5.34%**, respectively.

The main underwriting risk is that the share price already reflects much of the modal earnings outcome while AI infrastructure spending, agent-era interface ownership, and VIE governance remain unresolved. Base terminal EPS would need a **22.746762x** exit P/E to produce 20%, materially above the comparable 14.822519x current P/E and the locked 15x Base exit. Alternatively, at 15x, required terminal EPS is HKD69.756697, 51.6% above the locked Base EPS and even above the Bull EPS. That is hard veto 8 under this diagnostic.

2. Data Source Map

The QFR/DR-cleared ER2 chain controls. No stale warehouse file or unsealed price is used. The repaired synthesis re-hashed to `652a9ebe32d98d0954a4e193f72191e59bb7dc8386e22104406a849b913331c2`. The resealed preflight file at `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent Holdings\valuation_preflight.json` re-hashed to `e37bdef0a13523ca8957a7387d9cc9d22b4407c4a5d6577e227a0f53ce1213bf`, exactly matching `gate_manifest.json`; the installed validator returned `VALUATION_PREFLIGHT_VALID` with evidence-file checks enabled. Its quote-packet and statutory-bridge bindings also match their QFR seals.

Evidence need	Controlling source	Period / use	Confidence
Price, listing, unit and FX	QFR-sealed `quote_packet.json`	HKD434.00 close on 2026-09-09; XHKG:0700; 1.0 listed-unit factor; 1.1689 HKD/CNY	High
Income statement and statutory bridge	`quant_foundation.md`, `statutory_bridge.json`, official AR2021-AR2025 and IR2026	FY2021-FY2025 and TTM ended 2026-06-30	High
Balance sheet and cash flow	`data_package.md`, official AR2025 and IR2026	FY2021-FY2025; H1/TTM 2026	High
Share count, SBC and capital returns	`quant_foundation.md`, official statements, monthly/next-day HKEX returns	TTM diluted shares, current financial shares, buybacks, SBC and dividends	High
Segment economics and runway	Four peer-reviewed `appendix_B_*.md` files	VAS, Marketing, FinTech/Business Services and Others	Medium-high
Management, incentives and governance	`appendix_management.md`; official AR2025 and IR2026	Founder control, VIE, awards, capital allocation	Medium-high
Moat and competitors	`appendix_moat.md`; Tencent, NetEase, Kuaishou, Alibaba primary filings	Network effects, games, ads, cloud/AI and 2046 test	Medium

Evidence need	Controlling source	Period / use	Confidence
Earnings scenarios	Repaired `appendix_synthesis.md`	40% / 50% / 10% Bear/Base/Bull; unchanged 2031-06-30 EPS and shares	High mechanically
Valuation method and multiples	Validator-cleared `valuation_preflight.json`	PE; 10x / 15x / 19x fixed before returns	High mechanically; medium economically
TAM and product KPIs	Official Tencent annual/interim reports and investor kit	MAU, games, Mini Programs, cloud/AI narrative	Medium; several dollars/retention KPIs undisclosed

Tencent's official statements control discrepancies. Live FMP annual/quarterly product-segmentation responses were empty, so official segment tables replace them. FMP consolidated statements remain comparison data. The market cap used here is HKD3.976742 trillion, calculated as HKD434.00 multiplied by 9,163 million quote-basis diluted financial shares; it is not the preliminary HKD435.20 provider quote. A publication-grade enterprise value is not asserted because the current claim perimeter lacks a complete NCI and other-senior-claims schedule. A simplified secondary EV/NOPAT diagnostic is disclosed only as context and never controls returns.

3. Key Financial and Quality Metrics

The governed annual set contains five observations, FY2021-FY2025, which span four elapsed years. Therefore the column labelled “five observations” is not misrepresented as five years of compounding. A comparable ten-year statutory operating-profit series is unavailable because FY2023 moved investment-related items below operating profit and restated comparatives.

Metric	1 year	3 years	Five observations / 4 years	10 years	Basis
Revenue CAGR	13.86%	10.67%	7.63%	Unavailable	CNY751.766B FY2025; FY2021 CNY560.118B
NOPAT CAGR	18.25%	26.24%	14.99%	Unavailable	Statutory OI x one-year effective tax rate
Mechanical FCF CAGR	23.16%	20.46%	12.09%	Unavailable	Official OCF less issuer-defined capex
Diagnostic ROIC	18.9%	14.8%-18.9%	14.8% median	Unavailable	Average parent equity + debt - cash - short-term investments
Organic cash-deployment ROIIC	Not meaningful	25.15%	17.86%	Unavailable	Delta NOPAT / capex + R&D, excluding acquisitions
Acquisition-inclusive ROIIC	Not meaningful	22.43%	16.18%	Unavailable	Delta NOPAT / capex + R&D + net acquisition cash
Acquisition-inclusive reinvestment rate	99.73%	90.81% average	88.38% average	Unavailable	Cash-deployment proxy / NOPAT
Aggregate FCF / NOPAT	111.82%	124.06%	124.69%	Unavailable	Sum of FCF / sum of NOPAT
Diluted share CAGR	-1.74%	-1.58%	-1.19%	Unavailable	9,696m FY2021 to 9,244m FY2025

Current / TTM quality metric	Value	Interpretation
TTM revenue	CNY788.483B	Four official segments reconcile within CNY0.004B display rounding
TTM statutory operating margin	32.79%	Up from 20.0% in FY2022; strong but partly portfolio/mix driven
TTM mechanical FCF	CNY188.513B	88.92% of normalized NOPAT; down versus FY2025 amid AI capex
TTM SBC / revenue	2.96%	Economic cost retained in earnings and future issuance path
TTM SBC / FCF	12.36%	Material, though buybacks still shrink the diluted denominator
FY2025 net debt / EBITDA	-0.39x	Net cash; 2026 net cash fell as compute investment accelerated
TTM FCF yield	5.54%	TTM FCF translated at packet FX / sealed diluted market cap
Current reported / normalized P/E	14.5901x / 14.8225x	Directly recomputed, same listed-unit and currency basis

Current / TTM quality metric	Value	Interpretation
Simplified EV / normalized NOPAT	16.04x	Secondary only; excludes a publication-grade full claim bridge
Current annual dividend yield	1.22%	HKD5.30 / HKD434.00
Approximate TTM net buyback yield	1.11%	Repurchase cash less SBC expense proxy / diluted market cap; diagnostic

The adjusted-ROIC evidence is incomplete. The 14.8% median is a governed diagnostic that includes goodwill through parent equity but does not capitalize R&D with a complete amortization schedule. ROIC excluding goodwill would be mechanically higher, but awarding points from that number would exaggerate economics because Tencent's acquisitions and internally developed intangible assets are real capital commitments. This score is therefore capped at 2/5 on normalized ROIC.

4. Rubric Scorecard

Category	Score	Maximum	Evidence-based conclusion
1. Incremental Returns on Capital	17	25	Cash conversion and improving economics are real; measured ROIIC is mid-teens to mid-20s and the full economic capital ledger is incomplete
2. Reinvestment Runway	18	20	Large games, advertising, commerce, payments, cloud and AI opportunities; AI capital returns remain unproved
3. Durability of Moat	12	15	Weixin graph, games and closed-loop ads are strong; cloud, pricing and agent-interface durability are mixed
4. Accounting and Financial Quality	7	10	Cash supports earnings and balance sheet is sound; volatile below-line gains, VIE governance and SBC prevent a clean score
5. Capital Allocation Discipline	8	10	Operational reset and buybacks created value; deal-level returns and AI payback are undisclosed
Business Quality Score	**62**	**80**	Strong but below the 65/80 investable-now threshold
6. Price and 20% Return Underwriting	6	20	Base 10.76%, Bear negative, and 20% requires substantially more EPS or multiple expansion
Compounder Score	**68**	**100**	Reject under the diagnostic thresholds

The subscore allocation is: 1A-1F = 2/4/3/3/3/2; 2A-2F = 5/4/4/3/2/0; 3A-3F = 4/2/2/2/2/0; 4A-4F = 1/2/1/2/1/0; 5A-5F = 2/1/2/1/1/1; and 6A-6F = 2/2/0/0/1/1. The ROIIC-plus-runway subtotal is 35/45 and clears that isolated threshold. It cannot offset failures in total score, business quality, valuation score, Base IRR, Bear IRR, hard vetoes, and the no-expansion test.

5. ROIIC and Reinvestment Analysis

The ROIIC calculation is deliberately conservative and reproducible. For FY2022-FY2025, annual cash deployment equals issuer-defined capex plus R&D plus net acquisition cash. Organic deployment excludes acquisition cash. The three-year calculation compares FY2025 NOPAT of CNY200.2B with FY2022 NOPAT of CNY99.5B and divides the CNY100.7B increase by FY2023-FY2025 deployment. Organic deployment was CNY400.362B, producing **25.15% ROIIC**; acquisition-inclusive deployment was CNY448.920B, producing **22.43% ROIIC**.

Across the five annual observations, the calculation compares FY2025 NOPAT with FY2021 NOPAT of CNY114.5B. FY2022-FY2025 organic deployment was CNY479.777B and acquisition-inclusive deployment was CNY529.570B. The resulting four-elapsed-year ROIICs are **17.86% organic** and **16.18% acquisition inclusive**. These are useful diagnostics, not precision claims. Working-capital change, disposals, R&D amortization, capitalized software/content, acquisition purchase-price allocation, and asset-retirement effects are not available as a complete reconciled schedule. The acquisition-inclusive number is the safer score anchor because Tencent deployed material capital into studios and Ximalaya.

ROIIC improved materially from the 2022 trough as management exited low-value cloud activity and raised FinTech/Business Services gross margin from 33.0% in FY2022 to 50.8% in FY2025. Statutory operating margin rose from 20.0% to 32.1%, while NOPAT roughly doubled. That supports full points for non-deterioration and unit-economic corroboration. Yet the result

cannot earn the top ROIIC band: the four-year acquisition-inclusive figure is 16.18%, and the recent three-year figure is 22.43%, both below 25%-35% or greater-than-35% thresholds.

Cash conversion strengthens the case. Five-observation mechanical FCF totaled CNY873.555B versus CNY700.6B NOPAT, or 124.69%. This is partly because the NOPAT and cash-flow perimeters differ and because working-capital timing can release cash; it should not be called a permanent 125% conversion rate. TTM conversion fell to 88.92% as issuer-defined capex reached CNY117.335B, with H1 2026 alone at CNY84.720B. Q2 reported FCF was negative CNY13.8B. The AI investment cycle therefore creates a genuine test: the income statement has remained strong while cash evidence has weakened.

The evidence supports reinvestment at scale, but not a proven 20-year 20% ROIIC loop. R&D grew from CNY51.880B in FY2021 to CNY85.747B in FY2025 and capex accelerated sharply. Management says it will invest only for strong returns, but it provides no numeric AI payback, utilization, incremental gross profit, or ROIC hurdle. The score awards a high runway subtotal while denying the point for proof that growth will not compress returns.

6. Runway Analysis

Tencent has multiple organic growth vectors: domestic and international games, Weixin advertising, Search, Video Accounts, Mini Programs and Mini Shops, payments, wealth distribution, enterprise communications, cloud, and AI-enabled products. Combined Weixin/WeChat MAU grew from 1.268 billion in FY2021 to 1.439 billion at Q2 2026. Domestic Games revenue increased from CNY128.8B in FY2021 to CNY164.2B in FY2025; International Games rose from CNY45.5B to CNY77.4B. Marketing Services grew 19.4% in FY2025 and 22% in Q2 2026, with AI targeting and closed-loop conversion contributing.

The repeatable playbook is to use social distribution, identity, payments, data, content and operating expertise to launch or improve adjacent services. The 2022-2025 reset is proof that Tencent can prune low-return volume and rebuild margins. Base consolidated revenue growth of 7.15% through 2031 is below recent 10.07% H1 growth and does not depend on an invented product-dollar split. Segment appendices separately model VAS products while keeping undisclosed cloud, FinTech and ad-product dollars aggregated.

The limit is market structure. China internet platforms face strong rivals, low switching costs outside the core graph, regulation, and multi-homing. FinTech pricing is constrained; public cloud and generic agent workflows are benchmarkable. Others is loss-making and earns no premium. The runway is broad enough for 18/20, but the score withholds one point for proven deployment at scale and all of 2F because the present AI investment wave has not yet demonstrated incremental returns above the cost of capital.

7. Moat Analysis

Tencent's clearest moat is the Weixin relationship, identity, merchant and payment graph. Consumers attract merchants, creators, advertisers and Mini Program developers; their services preserve daily utility and transaction frequency. Recreating contact histories, official-account audiences, merchant acceptance, WeCom workflows and conversion data is costly even though consumers can multi-home. The second moat is the games portfolio: IP, studios, live operations, publishing, talent, social distribution and long-lived communities reinforce one another.

Marketing Services has defensible impression supply and transaction-linked measurement, but creative generation and bid management are replicable. VAS has differentiated IP, but every new game remains subject to hit and cohort risk. Payments is a trusted execution rail with limited pricing freedom. Public cloud, GPU rental, MaaS and stand-alone agent software face Alibaba, Huawei, ByteDance and others. Pricing power is therefore moderate rather than broad: strongest in scarce advertising and differentiated entertainment, weaker in payments and commodity infrastructure.

The 2046 test is YELLOW. A plausible future Tencent remains a trusted communication, identity, merchant, transaction and entertainment platform. The unresolved issue is whether Tencent owns the AI-agent interface or supplies rails beneath somebody else's interface. The Bull case assumes Tencent preserves that role and compounds EPS 17.76% from reported TTM. Bear assumes revenue stagnation, 24.55% terminal operating margin, negative portfolio gains and a 10x P/E. The repaired **40% Bear** weight reflects the additional VIE/China-policy claim tail, agent-interface risk, and the possibility that AI capital needs crowd out buybacks and dividends. Bull is cut to 10% because its strong revenue, margin and 19x valuation must occur together.

This score gives full credit for an identifiable advantage and meaningful stickiness, but not for low disruption risk. Upgrade evidence would require durable Weixin-agent engagement, paid retention, merchant conversion, and normalized capex with group ROIC at least 15%. Downgrade evidence would be sustained declines in Weixin engagement or payments frequency,

ad growth requiring heavier loads, or persistent AI capex above 10% of revenue while ROIC falls below 12%.

8. Accounting and Capital Allocation Analysis

Accounting quality is adequate but not pristine. The statutory bridge reconciles four segment gross-profit lines through corporate expenses, operating income, volatile investment and associate items, tax, NCI and the diluted numerator with zero residual. The reported TTM EPS is HKD29.746148; normalized comparable EPS is HKD29.279773 after removing a CNY2.571B other operating gain, normalizing investment gains to CNY12B and associates/JVs to CNY18B, using an 18% tax rate, and preserving NCI/diluted adjustments. Because the difference is modest and the accounting perimeter matches terminal EPS, preflight correctly judges the denominators comparable.

The main quality limitations are volatile below-line gains, a 2023 classification boundary, material SBC and VIE enforceability. TTM SBC is CNY23.309B, 2.96% of revenue and 12.36% of FCF. It remains in statutory earnings and its shares appear once in the forward denominator. Buybacks retire more shares than SBC issues in each scenario, so no double counting or hidden dilution benefit is claimed.

Capital allocation since 2022 is credible. Tencent cut lower-quality cloud activity, restored margins, repurchased CNY2.2B / 29.3B / 43.8B / 102.3B / 73.3B across FY2021-FY2025, raised dividends, and reduced diluted weighted shares from 9,696m to 9,244m. M&A is mixed: acquisition cash was CNY67.0B in FY2021 and CNY34.7B in FY2025, but deal-level invested capital and post-acquisition returns are not disclosed. Ximalaya is too recent to judge.

Management remains YELLOW. Founder leadership has produced a strong operating record, but Ma Huateng combines chair and CEO; two independent directors have served since 2004; 2025 employee awards lacked performance targets; and operating companies held through contractual arrangements generated about 57% of FY2025 revenue. The contracts transferred surplus cash and received independent-director/auditor review, but contractual control is not direct ownership. These facts justify 7/10 accounting/financial quality and 8/10 capital allocation rather than clean scores.

9. 20% Return Underwriting

Primary valuation method: P/E. The same PE method controls Bear, Base, Bull, probability weighting, reverse return, max-buy price and net-SGD. Terminal share value equals terminal statutory diluted EPS times the locked exit P/E. No cash, debt, lease, NCI carrying claim or investment asset is added or subtracted after EPS times P/E. Repurchases appear only in terminal diluted shares; dividends are added once as distributions.

Security return underwriting	Bear	Base	Bull	Probability weighted
Probability	40%	50%	10%	100%
Current price, HKD	434.00	434.00	434.00	434.00
Terminal EPS, HKD	19.283452	45.999975	67.376796	Not a fourth case
Exit P/E	10.00x	15.00x	19.00x	PE throughout
Terminal equity value/share, HKD	192.834516	689.999620	1,280.159115	550.149528 expected
Cumulative distributions/share, HKD	23.750000	33.580424	37.710502	30.061262 expected contribution
Terminal shareholder wealth/share, HKD	216.584516	723.580044	1,317.869616	580.210790 expected
Gross local IRR	**-12.98%**	**10.76%**	**24.88%**	**5.98%**
Net-SGD diagnostic IRR	**-15.03%**	**10.01%**	**25.75%**	**5.34%**

The terminal equity and expected distribution rows are probability weighted separately and sum to expected wealth. The reported expected terminal equity display is rounded; the full-precision JSON controls. The exact formula is `(580.2107900229161 / 434)^(1/5) - 1 = 5.9788528597%`. No arithmetic average of -12.98%, 10.76%, and 24.88% is used. Compared with the superseded 30%/50%/20% weights, the expected-wealth CAGR falls by 3.75 percentage points.

The dividend diagnostic starts from the approved FY2025 HKD5.30 annual dividend. Bear pays HKD5.00 / 4.50 / 4.50 / 4.75 / 5.00; Base grows 8% yearly to HKD7.787439; Bull grows 12% yearly to HKD9.340411. These cash flows are not hidden in terminal value and are counted once. They are assumed held in HKD until horizon for this conservative terminal-wealth simplification.

The net-SGD overlay does not change PE, EPS, share count, distributions or exit multiples. It applies 0.20% trading/tax friction and 0.50% FX-conversion friction at entry; 0.20% selling friction and 0.50% conversion friction at exit; zero modeled source withholding; and relative HKD/SGD factors of 0.90 / 0.98 / 1.05. Dividends incur conversion friction but no selling friction. Exact account, broker and investor tax facts are unavailable, so this is a bounded diagnostic, not an individualized after-tax promise. Every visible net-SGD return is shown to exactly two decimals.

RT's repaired sensitivities do not replace the primary scenarios or alter PE. They test whether Base silently relies on full margin leverage, buybacks and dividend growth while AI returns are unproved.

RT-driven Base sensitivity	Terminal EPS, HKD	Terminal shares, m	Distributions, HKD/share	Terminal wealth, HKD/share	Gross local IRR
Base as modeled	45.999975	8,767.696	33.580424	723.580044	10.76%
Terminal OI margin -400 bps	41.281173	8,767.696	33.580424	652.798017	8.51%
No buybacks / zero distributions	42.813302	9,420.292	0.000000	642.199527	8.15%
Joint margin miss + no buybacks / zero distributions	38.421398	9,420.292	0.000000	576.320963	5.84%

The 400-basis-point margin miss cuts Base IRR by 2.26 percentage points; the no-buyback/zero-distribution diagnostic cuts it by 2.61 points; and their joint failure cuts it by 4.93 points. The score remains 6/20 because the rubric's primary Base and Bear inputs are unchanged, but these diagnostics reinforce rather than cure the inadequate valuation underwriting.

Bear-case operating and return bridge

Gross local HKD underwriting; CNY billions except per-share values and shares in millions.

Bear case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	CNY788.483B	CNY857.196B	1.69%	Stagnant VAS, weaker FinTech/cloud and limited Marketing growth
Operating margin	32.79%	24.55%	-8.24 pp	Higher selling, compliance and underutilized AI-capacity burden
Operating earnings	CNY258.543B	CNY210.412B	-4.04%	Statutory operating income after segment gross profit and corporate costs
Diluted share count	9,163m	8,917.856m	-0.54%	CNY205B buybacks retire 572.093m; SBC issues 326.950m
EPS	HKD29.7461	HKD19.2835	-8.30%	Statutory diluted EPS; downside includes loss/zero below-line support
Valuation denominator	Reported HKD29.7461; normalized HKD29.2798	Statutory diluted EPS HKD19.2835	Comparable	Same listed unit, currency and statutory earnings perimeter
Valuation	14.8225x normalized P/E	10.00x P/E	-4.82x	Below historical/peer lows for stagnation, regulation and interface risk
Share value	HKD434.00	HKD192.8345	-55.57%	HKD19.283451630 EPS x 10x; no separate net-cash adjustment
Annual dividend	HKD5.30	HKD5.00	-1.17%	Cut then partial recovery as earnings and cash conversion weaken
Dividend yield	1.22%	2.59%	+1.37 pp	Annual dividend / endpoint share value
Five-year dividends	-	HKD23.7500	cumulative	Explicit yearly payments counted once
Total ending value	HKD434.00	HKD216.5845	**-12.98% gross local IRR**	Terminal share value plus cumulative distributions

Base-case operating and return bridge

Base case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	CNY788.483B	CNY1,113.461B	7.15%	Below recent growth; VAS, ads and FinTech compound without invented splits
Operating margin	32.79%	35.77%	+2.98 pp	Two-year AI burden followed by G&A and mix leverage
Operating earnings	CNY258.543B	CNY398.291B	9.03%	Statutory OI from the reviewed segment/corporate bridge
Diluted share count	9,163m	8,767.696m	-0.88%	CNY300B buybacks retire 652.596m; SBC issues 257.292m
EPS	HKD29.7461	HKD46.0000	9.11%	Statutory diluted EPS with normalized below-line cadence
Valuation denominator	Reported HKD29.7461; normalized HKD29.2798	Statutory diluted EPS HKD46.0000	Comparable	Normalized current and terminal use the same listed-unit/perimeter basis
Valuation	14.8225x normalized P/E	15.00x P/E	+0.18x	Near normalized current, below Tencent recent median, with YELLOW haircuts
Share value	HKD434.00	HKD689.9996	+58.99%	HKD45.999974655 EPS x 15x; no separate net-cash adjustment
Annual dividend	HKD5.30	HKD7.7874	8.00%	Explicit 8% annual growth, below EPS growth
Dividend yield	1.22%	1.13%	-0.09 pp	Annual dividend / endpoint share value
Five-year dividends	-	HKD33.5804	cumulative	Explicit yearly payments counted once
Total ending value	HKD434.00	HKD723.5800	**10.76% gross local IRR**	Terminal share value plus cumulative distributions

Bull-case operating and return bridge

Bull case	Start (2026-06-30)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	CNY788.483B	CNY1,295.146B	10.44%	Strong games, ad, cloud and Weixin-agent execution
Operating margin	32.79%	41.61%	+8.82 pp	High segment margins and later corporate-cost leverage
Operating earnings	CNY258.543B	CNY538.942B	15.82%	Statutory OI after all governed corporate costs
Diluted share count	9,163m	8,684.067m	-1.07%	CNY400B buybacks retire 686.697m; SBC issues 207.764m
EPS	HKD29.7461	HKD67.3768	17.76%	Statutory diluted EPS with portfolio/associate recovery
Valuation denominator	Reported HKD29.7461; normalized HKD29.2798	Statutory diluted EPS HKD67.3768	Comparable	Same listed unit, currency and statutory earnings perimeter
Valuation	14.8225x normalized P/E	19.00x P/E	+4.18x	Inside Tencent history; strong execution but below recent medians
Share value	HKD434.00	HKD1,280.1591	+194.97%	HKD67.376795500 EPS x 19x; no separate net-cash adjustment
Annual dividend	HKD5.30	HKD9.3404	12.00%	Explicit growth below EPS CAGR
Dividend yield	1.22%	0.73%	-0.49 pp	Annual dividend / endpoint share value
Five-year dividends	-	HKD37.7105	cumulative	Explicit yearly payments counted once
Total ending value	HKD434.00	HKD1,317.8696	**24.88% gross local IRR**	Terminal share value plus cumulative distributions

The excessive-optimism challenge passes because Bull requires both 17.76% EPS growth and a 19x multiple, receives only 10% probability, and does not control the conclusion. The excessive-bearishness challenge passes because Bear preserves positive Weixin/games economics and positive EPS rather than forcing distress or zero equity. Both tests and the multiple evidence were resealed by VP before this CS rerun. RT's material return objections are now explicitly represented by the repaired probabilities and sensitivity bridge rather than left pending.

For 20%, required five-year wealth is HKD1,079.93088. At 15x and Base distributions, required EPS is HKD69.756697, implying 18.96% CAGR from normalized TTM EPS. At locked Base EPS, the required exit P/E is 22.746762x. The method-matched max-buy price for a 20% gross return is **HKD290.790591**, 33.0% below HKD434.00. The 20% case is therefore not beatable on the modal assumptions.

10. Hard Veto Checklist

#	Test	Status	Evidence
1	ROIIC below cost of capital with no improvement path	Pass	Three-year acquisition-inclusive ROIIC 22.43%; four-year 16.18%
2	High ROIC only because capital is tiny/negative	Pass	Parent equity CNY1,135.853B at H1 2026; diagnostic ROIC uses a substantial capital base
3	Growth requires persistent external financing	Pass	Net-cash balance and strong aggregate FCF, though 2026 debt rose
4	Material share growth without per-share value creation	Pass	Diluted shares declined 4.7% FY2021-FY2025 despite SBC
5	Serial large acquisitions without return disclosure	Watch	Deal-level returns absent; spend is uneven, not persistently dominant
6	FCF structurally lags earnings	Watch	Multi-year conversion strong; TTM weakened to 88.92% under AI capex
7	Concentration/regulation/platform/leverage can permanently impair equity	Watch	VIE/regulation and agent interface are material; balance sheet is not the main risk
8	20% case requires terminal multiple expansion	**Fail**	22.75x required on Base EPS versus 14.82x normalized current and 15x locked Base
9	Flawless execution is needed to justify today's price	Watch	Base supports a positive 10.76% return, but not the target hurdle
10	Moat cannot be explained clearly	Pass	Weixin graph plus games IP/live operations and closed-loop ads/payments
11	Accounting/governance issues impair trust	Watch	VIE and board/incentive issues are material, but reconciliations and audit evidence remain intact
12	Balance-sheet risk could wipe out equity	Pass	FY2025 net cash and positive earnings in Bear; no zero-equity assumption

The failed veto is valuation-specific. It does not allege business failure; it says the targeted 20% shareholder return cannot be underwritten at the current price without a much stronger earnings outcome or material multiple expansion.

11. Final Decision

Reject under the diagnostic rubric. Tencent earns substantial business-quality credit, but the Business Quality Score is below 65/80, total score is below 70/100, and valuation underwriting is only 6/20. Base gross local IRR is 10.76%, Bear is -12.98%, and repaired probability-weighted gross local IRR is **5.98%**. The finite net-SGD probability-weighted diagnostic is **5.34%**, below the CIO mandate's 10%-15% target range, while the Bear net-SGD outcome is -15.03%. These are security-underwriting results, not a portfolio instruction. Re-evaluation leaves the numeric score and classification unchanged because conditional Base/Bear returns and rubric thresholds are unchanged; the lower expected return makes the Reject conclusion more robust.

The evidence supports monitoring four upgrade conditions: normalized AI capex with disclosed utilization or incremental gross-profit evidence; sustained group ROIC at or above 15%; continued net share shrinkage after SBC; and Weixin-native agent engagement/merchant conversion proving Tencent retains the interface. Price alone could also change the result: the method-matched Base max-buy price for 20% is HKD290.79, subject to the same EPS, distributions and 15x exit.

Compounder Score note: **68/100 - Reject; strong franchise economics do not overcome a 5.98% probability-weighted gross return and a failed 20% multiple-expansion veto.**

Business Quality Score note: **62/80 - strong ecosystem, cash generation and per-share discipline are offset by mid-teens longer-window ROIIC, elevated AI capital intensity, VIE governance, and Management/Moat YELLOW.**

20% Return UW Score note: **6/20 - Base gross local IRR is 10.76%; 20% requires HKD69.76 EPS at 15x or a 22.75x P/E on locked Base EPS.**

Issue set for downstream audit: ten-year comparable ROIC unavailable; R&D-capitalized ROIC and complete working-capital reinvestment bridge unavailable; segment operating income and deal-level returns undisclosed; exact investor tax/broker facts unavailable. RT's material return objections are addressed in the repaired S/VP and reproduced here; CSA must re-audit this rerun.

12. Machine-Readable JSON

The machine-readable companion is `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent Holdings\compounder_score.json`. It contains full-precision scenario wealth, gross local IRRs, net-SGD diagnostics, rubric details, authority flags, preflight hash binding, and nulls for genuinely inapplicable P/B or EV/NOPAT bridge fields. The JSON uses `CAGR_OF_PROBABILITY_WEIGHTED_TERMINAL_WEALTH` and `CAGR_OF_PROBABILITY_WEIGHTED_NET_TERMINAL_WEALTH`; it does not average scenario IRRs.

Tencent Holdings - Independent Scoring Audit

Analysis date: **2026-09-09**. Security: **XHKG:0700 Tencent ordinary shares**. Current price: **HKD434.00**. Exact horizon: **2026-06-30 to 2031-06-30, 5.0 years**. Reporting currency is CNY; quote and gross shareholder-return currency is HKD. Research only; no ranking, sizing, trading, messaging, or portfolio authority is granted.

Scoring-audit rerun status: CLEARED FOR STAGE RT RERUN. Final publication remains conditional on RT confirming the repaired chain. The repaired valuation preflight is valid, the prior material RT objections are represented in the new probability lock and sensitivity bridge, and the return arithmetic is clean. The audited score remains lower than CS because six qualitative rubric points are not fully earned by the governed evidence.

Current governed bindings independently match: synthesis SHA-256 `652a9ebe32d98d0954a4e193f72191e59bb7dc8386e22104406a849b913331c2`; valuation-preflight SHA-256 `e37bdef0a13523ca8957a7387d9cc9d22b4407c4a5d6577e227a0f53ce1213bf`; CS Markdown SHA-256 `b762acba30e29719bdd83137c9bab121f95d9e48d3cd1e3291d86c17be38639c`; and CS JSON SHA-256 `ef60dfc43beb4034faa0eb18871f2240ee843689bb0ed6ccacb9943fb12d009c`.

1. Original vs Audited Scores

Item	Original	Audited	Notes
Business Quality Score / 80	62/80	56/80	Six qualitative points removed; quantitative capital-return points largely stand
Valuation / 20% Return UW Score / 20	6/20	6/20	Return arithmetic, method consistency, and rubric mapping reproduce
Total Score / 100	68/100	62/100	Still below the 70/100 Reject threshold
Classification	Reject	Reject	Hard veto 8 and the failed 20% case independently require Reject

Repaired scenario probabilities are 40% Bear, 50% Base, and 10% Bull. They are non-uniform, sum to 100%, and match synthesis, valuation, gross HKD, net-SGD, and probability-weighted wealth. Conditional Bear/Base/Bull bridges are unchanged. Original CS and audited maximum buy price for a 20% Base gross return remains **HKD290.7905911298**.

Rubric reconstruction

Rubric	Maximum	Original	Audited	Evidence status	Audit decision
1A Normalized ROIC	5	2	2	Partly supported	Preserve; five-observation median is 14.8%, but full R&D/lease adjustment is absent
1B ROIIC	8	4	4	Supported with limits	Preserve; acquisition-inclusive recent and longer-window results are inside the 15%-25% band
1C ROIIC trend	3	3	3	Supported	Preserve; recent acquisition-inclusive ROIIC exceeds the longer-window result
1D Unit economics	3	3	2	Partly supported	Reduce; segment gross margins are strong, but product cohorts and segment operating profit are undisclosed
1E Cash conversion	3	3	3	Supported	Preserve; five-observation aggregate conversion is 124.7%, despite TTM weakening
1F ROIC not artifact	3	2	2	Partly supported	Preserve the capped score; goodwill is included but R&D capitalisation is incomplete
2A Market opportunity	5	5	4	Partly supported	Reduce; broad vectors exist, but several core TAM/product-dollar anchors are management-led or undisclosed

Rubric	Maximum	Original	Audited	Evidence status	Audit decision
2B Reinvestment at scale	5	4	4	Supported with limits	Preserve; the 2022-2025 reset produced measurable margin and NOPAT improvement
2C Organic growth	4	4	4	Supported	Preserve; historical and segment evidence supports a mid-single/high-single-digit group runway
2D Expansion playbook	3	3	3	Supported	Preserve; Weixin distribution, games operations, ads, payments, and cloud optimisation are repeatable mechanisms
2E Market structure	2	2	1	Partly supported	Reduce; regulation, multi-homing, weak FinTech pricing, and cloud/agent competition do not justify full credit
2F Growth without ROIC collapse	1	0	0	Missing data	Preserve zero; AI capital returns are not yet demonstrated
3A Source of advantage	4	4	4	Supported	Preserve; Weixin graph, games IP/live operations, and closed-loop commerce are identifiable
3B Pricing power	3	2	2	Partly supported	Preserve; pricing is moderate and uneven rather than broad
3C Competitive evidence	3	2	2	Partly supported	Preserve; peer evidence exists, but competitor economics are not fully comparable
3D Customer stickiness	2	2	2	Supported with limits	Preserve; merchant/enterprise integration is sticky even though consumers multi-home
3E Stress resilience	2	2	2	Supported	Preserve; the 2022 reset and subsequent margin recovery are observable
3F Low disruption risk	1	0	0	Unsupported	Preserve zero; agent-interface ownership remains unresolved
4A Clean earnings quality	2	1	1	Partly supported	Preserve; volatile investment/associate lines and the 2023 classification boundary prevent full credit
4B Cash supports earnings	2	2	2	Supported	Preserve; multi-year cash conversion is strong, with current AI-capex pressure disclosed
4C SBC and dilution	2	1	1	Partly supported	Preserve; dilution is modeled, but the headline burden uses equity-settled SBC rather than total SBC
4D Balance sheet	2	2	2	Supported	Preserve; net cash and positive Bear earnings limit balance-sheet wipeout risk
4E Transparency	1	1	0	Missing crucial data	Set to zero; segment OI, cloud ARR, FinTech mix, AI payback, and deal returns are absent
4F No governance flags	1	0	0	Unsupported	Preserve zero; VIE enforceability, board tenure, and incentive design are live flags
5A Rational reinvestment	2	2	1	Partly supported	Reduce; prior reset was rational, but the current AI spend lacks a return hurdle or payback bridge
5B Acquisition discipline	2	1	1	Partly supported	Preserve; spend is included in ROIIC, but deal-level returns are unavailable

Rubric	Maximum	Original	Audited	Evidence status	Audit decision
5C Buyback discipline	2	2	1	Partly supported	Reduce; shares shrink, but management discloses no valuation hurdle or average repurchase multiple
5D Incentive alignment	2	1	1	Partly supported	Preserve; founder ownership helps, while 2025 awards lacked performance targets
5E Owner mentality	1	1	1	Supported with limits	Preserve; founder ownership and per-share outcomes support one point
5F Past decisions	1	1	1	Supported	Preserve; low-return cloud activity was explicitly pruned and margins recovered
6A Base IRR at least 20%	6	2	2	Calculation verified	Preserve; 10.7642% maps to the 10%-15% band
6B Conservative exit multiple	4	2	2	Supported	Preserve; 15x is only 1.2% above comparable current 14.8225x and is independently anchored
6C Bear acceptable	3	0	0	Calculation verified	Preserve zero; Bear is -12.9783%
6D Reverse hurdle beatable	3	0	0	Calculation verified	Preserve zero; required EPS and P/E materially exceed Base
6E Price does not imply perfection	2	1	1	Partly supported	Preserve; the price supports a positive Base return but not the target hurdle
6F Cash returns help	2	1	1	Supported with limits	Preserve; distributions help modestly but do not rescue the hurdle

Audited category totals are 16/25 for Incremental Returns, 16/20 for Runway, 12/15 for Moat, 6/10 for Accounting/Financial Quality, 6/10 for Capital Allocation, and 6/20 for Price/Return Underwriting.

2. Score Reductions and Reasons

This score is reduced because the evidence does not support full marks for six qualitative items:

- **1D: 3 to 2.** Major-segment gross margins and the consolidated statutory bridge are real, but Tencent does not disclose segment operating income, product gross margins, payer cohorts, cloud unit economics, or returns after central R&D. Gross-margin strength is not a complete unit-economic proof.
- **2A: 5 to 4.** Games, advertising, commerce, payments, cloud, and AI create a broad opportunity set, but several growth claims lack product-dollar or retention anchors. The score should not treat management's opportunity narrative as fully measured TAM evidence.
- **2E: 2 to 1.** The market structure is not uniformly favorable. Consumers multi-home, FinTech take rates face regulation, public cloud is price competitive, and an external agent may own future discovery and purchase intent.
- **4E: 1 to 0.** Candor is reasonable, but crucial financial disclosure is incomplete. Segment operating income, cloud ARR/RPO, payment volume, Mini Shops GMV, product capital returns, and AI payback are missing.
- **5A: 2 to 1.** The 2022 reset shows rational pruning, but H1 2026 capex of CNY84.720B exceeded FY2025 and management provides no AI return hurdle, utilization bridge, or payback schedule.
- **5C: 2 to 1.** Repurchases have more than offset issuance, but full credit for discipline requires better evidence that purchases were valuation-sensitive. No explicit hurdle or average repurchase multiple is disclosed.

3. Unsupported Claims

The evidence does not support a claim that Tencent has fully measured product-level unit economics. The group reports gross profit by segment, not operating profit after central R&D and infrastructure cost. It also does not disclose the product cohorts needed to verify games payer economics, advertising retention, cloud utilization, or paid-agent retention.

The evidence does not support full-credit transparency. The absence of cloud ARR/RPO, FinTech product mix, payment volume, Mini Shops GMV, segment operating income, deal-level returns, and AI capital payback is material to the compounder thesis.

The evidence does not support treating total TTM SBC burden as 2.96% of revenue. CNY23.309B is specifically the TTM **equity-settled** component. FY2025 total share-based compensation was CNY31.9B, or 4.24% of revenue. Equity-settled SBC is the correct input for the forward dilution proxy, but it is not a complete headline economic-cost measure.

4. Calculation Errors

Valuation preflight and denominator integrity

The exact repaired valuation-preflight SHA-256 is `e37bdef0a13523ca8957a7387d9cc9d22b4407c4a5d6577e227a0f53ce1213bf`. It equals the gate-manifest and CS copies. The repository validator returns `VALUATION_PREFLIGHT_VALID` with evidence-file checking.

Reported current EPS independently recomputes as `CNY234.096B / 9,199m × 1.1689 = HKD29.746147886`, and `HKD434 / HKD29.746147886 = 14.590124465x`. Normalized current EPS independently recomputes from CNY258.543B operating income less CNY2.571B other operating gain, plus CNY17.267B interest, less CNY13.287B finance cost, plus CNY12B normalized investment gains and CNY18B associates, followed by 18% tax, 2.5% NCI, 0.6% diluted-numerator adjustment, 9,199m shares, and packet FX. The result is HKD29.279772702 and 14.822519438x. The reported-to-normalized difference is only 1.57%; cash conversion is positive, and the current and terminal statutory diluted-EPS perimeters match. Comparability is therefore correctly marked true.

The FMP historical/peer P/Es reproduce the stated anchors: Tencent 2022-2025 spans 14.18x-22.32x; Kuaishou is 13.55x, PDD 10.44x, Alibaba 18.36x, and NetEase 18.22x on their latest profitable annual rows. Baidu's 59.35x is correctly excluded as distorted. No provider ratio is relabeled or converted. Bear 10x, Base 15x, and Bull 19x were locked before returns and are economically bounded by current, historical, peer, maturity, and risk evidence.

The excessive-optimism test passes only as a tail case: Bull requires 10.44% revenue CAGR, 41.61% terminal operating margin, 17.76% EPS CAGR, and a 19x P/E, but receives only 20% probability and remains below Tencent's recent P/E medians. The excessive-bearishness test also passes: Bear preserves positive earnings and going-concern franchise value, uses 1.69% revenue growth, 24.55% margin, adverse below-line assumptions, and a 10x floor rather than zero equity.

Operating-quality calculations

NOPAT equals statutory operating profit times one minus the period tax rate. Rounded source replay gives FY2021-FY2025 NOPAT of CNY114.484B, 99.489B, 117.126B, 169.309B, and 200.231B. Small differences from CS's full-precision outputs are below ten basis points and arise from displayed tax-rate rounding; they do not change any score band.

FY2025 ROIC including goodwill independently recomputes to approximately **18.92%** using CNY200.231B NOPAT and CNY1,058.4B average invested capital. Average FY2024-FY2025 goodwill is CNY147.958B, so a mechanical goodwill-excluded FY2025 ROIC is approximately **21.99%**. The latter is not the controlling score because acquisitions are real capital and a complete R&D-capitalized, lease-adjusted series is unavailable. The five-observation median of the governed reported diagnostic is 14.8%, supporting 1A at 2/5 after the completeness cap.

Rounded-source ROIIC replay produces 25.16% organic and 22.44% acquisition-inclusive over FY2022-FY2025, and 17.87% organic and 16.19% acquisition-inclusive over the four elapsed years FY2021-FY2025. These agree with CS's full-precision 25.15%, 22.43%, 17.86%, and 16.18%. The JSON fields called `roiic_5yr` are actually five observations across four elapsed years; the markdown discloses this correctly, but the machine-readable label is imprecise.

Acquisition-inclusive reinvestment averages approximately 90.81% for FY2023-FY2025 and 88.38% for FY2022-FY2025. Aggregate FCF/NOPAT independently reproduces near 124.06% for FY2023-FY2025 and 124.69% across all five observations. TTM conversion is 88.92%, consistent with the documented AI-capex step-up. Diluted shares fell from 9,696m to 9,244m, a four-year CAGR of -1.1864%. These calculations are sound.

The publication-grade current EV/NOPAT field is correctly null because leases, NCI carrying claims, and other senior claims do not have a complete perimeter. The disclosed 16.04x simplified secondary diagnostic does not show enough formula detail to replay its exact denominator and should remain non-authoritative. This does not affect the PE-controlled return or score.

Gross HKD return replay

Case	EPS × exit P/E	Distributions	Terminal wealth	Audited gross HKD IRR
Bear	HKD192.834516300	HKD23.750000000	HKD216.584516300	-12.9783055968%
Base	HKD689.999619825	HKD33.580423895	HKD723.580043720	10.7641885419%
Bull	HKD1,280.159114500	HKD37.710501929	HKD1,317.869616429	24.8752995966%

Expected wealth is `40% × 216.584516300 + 50% × 723.580043720 + 10% × 1,317.869616429 = HKD580.210790023`. Annualizing expected wealth gives **5.9788528597%**. The probability-weighted arithmetic average of scenario IRRs would be only 2.6783%, and CS correctly does not use it. The repaired weighting lowers the expected-wealth CAGR by 3.75 percentage points versus the superseded 30%/50%/20% chain.

Net-SGD replay

The entry index is `HKD434 × 1.002 × 1.005 = 437.04234`. Terminal equity receives 0.998 selling and 0.995 FX-conversion factors; distributions receive the 0.995 FX factor and zero modeled withholding; scenario HKD/SGD relative factors are 0.90, 0.98, and 1.05.

Case	Audited terminal wealth index	Audited net-SGD IRR
Bear	193.606067728	-15.0273641471%
Base	704.217263373	10.0111313311%
Bull	1,374.169389294	25.7486558359%
Probability weighted	566.967997707	5.3433212559%

All four values reproduce exactly. PE controls every scenario and the overlay. Cash, debt, leases, senior claims, non-operating assets, and NCI carrying values are not added or subtracted after EPS times P/E. Repurchases enter only the share path. Dividends enter terminal wealth once. The double-count check passes.

The reverse-return mechanics also reproduce. Required five-year wealth at 20% is HKD1,079.93088. After Base distributions, required terminal EPS at 15x is HKD69.756697074, requiring 18.9607% CAGR from normalized TTM EPS. At locked Base EPS, the required exit P/E is 22.746761579x. Base max buy price is HKD290.790591130.

The repaired RT sensitivities independently replay at the same 15x P/E: a 400-basis-point Base terminal-margin miss yields 8.5070%; no buybacks plus zero distributions yields 8.1524%; and the joint margin miss/no-buyback/zero-distribution case yields 5.8364%. These do not replace the locked Base case or change a rubric band, but they validate the higher Bear weight and reinforce the 6/20 return-underwriting score.

5. Missing Data

The most important missing evidence is a complete R&D-capitalized, lease-adjusted ROIC and reinvestment ledger, including working-capital changes, disposals, amortization, and acquisition purchase-price effects. A true five-elapsed-year and ten-year comparable ROIIC history is also unavailable.

Other material gaps are total TTM SBC across equity- and cash-settled awards; segment operating income; product-level gross margins and retention; cloud ARR/RPO and utilization; payment volume and FinTech mix; Mini Shops GMV; deal-level acquisition returns; an AI capex payback or return hurdle; a complete current EV/NOPAT claim bridge; and investor-specific Singapore tax and broker facts.

6. Hard-Veto and Threshold Test Audit

Hard veto 8 fails. The locked Base case produces 10.76%, not 20%. Achieving 20% on locked Base EPS requires a 22.75x exit P/E versus 14.82x comparable normalized current P/E and 15x locked Base P/E. This is material expansion, not a rounding issue. The other hard-veto rows are reasonably classified Pass or Watch; no hidden balance-sheet wipeout or structural financing need was found.

Audited thresholds are: total at least 80/100 - fail; Business Quality at least 65/80 - fail; Valuation at least 15/20 - fail; ROIIC plus runway at least 35/45 - fail after the evidence reductions, at 32/45; Base IRR at least 20% - fail; Bear at least 8%-10% - fail; no hard vetoes - fail; no required expansion - fail.

7. Final 20% Hurdle Pass/Fail

FAIL. The 20% case requires either HKD69.76 terminal EPS at 15x or a 22.75x P/E on locked Base EPS. Neither is supported by the central operating and valuation case. The audited Base gross HKD IRR is 10.76%, and repaired probability-weighted gross HKD IRR is 5.98%.

8. Dream Business / Dream Investment Classification

Neither. Tencent has strong current franchises, but Management and Moat are both YELLOW, measured longer-window returns are not elite after acquisition-inclusive treatment, and AI reinvestment returns remain unproved. At HKD434, the security is also not a dream investment because the Base and probability-weighted returns are roughly 10%, Bear is negative, and the 20% stretch case requires material expansion.

The single biggest reason Tencent does not qualify is **the gap between current price and supportable 20% terminal wealth under the locked Base earnings and multiple**.

9. Stage 7 Scorecard Notes

Compounder Score note: **62/100 - the rubric rejects Tencent because evidence gaps and a 5.98% probability-weighted gross return leave the 20% case implausible at the locked central valuation.**

Business Quality Score note: **56/80 - strong franchises and cash generation are offset by incomplete unit economics, disclosure gaps, contested market structure, and unproved AI capital returns.**

20% Return UW Score note: **6/20 - Base gross HKD IRR is 10.76%; 20% requires HKD69.76 EPS at 15x or 22.75x on locked Base EPS.**

10. Auditor JSON

The machine-readable companion is `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent Holdings\compounder_score_audit.json`. It contains the full-precision audited gross HKD and net-SGD results, preflight binding, method and double-count checks, rubric reconstruction, score reductions, and complete issue inventory.

Tencent Holdings - Independent Red Team

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Audit disposition: `MATERIAL_RESOLVED`**.** The first RT pass found a material scenario-calibration problem: 30% Bear / 50% Base / 20% Bull gave too much weight to a Bull state requiring high growth, high margin and a 19x exit simultaneously, while the ordinary Bear did not fully express the common-factor AI/VIE/China-policy tail. S, VP, CS and CSA were rerun. The repaired model uses 40%/50%/10%, preserves P/E as the controlling method, explicitly publishes the margin and capital-return stresses, and lowers probability-weighted returns by well over the two-point RT threshold. No material objection remains unresolved.

Governed-artifact audit

The foundation is mechanically sound. I recomputed SHA-256 for QF, QFR, D/DR, A, all four post-review B appendices, M, W and the original S/VP/CS/CSA artifacts against `gate_manifest.json`; every pre-repair digest matched. The quote packet is the exact XHKG:0700 ordinary share at HKD434.00, one financial share per listed unit, 1.1689 HKD/CNY, and hashes to `76a39fb713315ff11314ea29388ed9945c5695a2befacba088c0ac0588c96a0b`. The statutory bridge hashes to `7840cdbab10aee0c97531586ebcc1837b6470951d6963bf3ce5895e17a5ea922`; FY2025 and TTM segment gross profit bridge to statutory operating income, pretax income and net income with zero residual. QFR cleared 9/9, DR recorded no unresolved omission, the reviewed segment files have zero issues remaining, and repaired S again cleared 11/11 tie-outs at SHA `652a9ebe32d98d0954a4e193f72191e59bb7dc8386e22104406a849b913331c2`.

Repaired VP hashes to `e37bdef0a13523ca8957a7387d9cc9d22b4407c4a5d6577e227a0f53ce1213bf`. The installed validator returned `VALUATION_PREFLIGHT_VALID` with evidence-file checking. Repaired CS and CSA bind that exact VP and S. Their arithmetic is correct: Bear/Base/Bull terminal wealth remains HKD216.5845/HKD723.5800/HKD1,317.8696; gross IRRs remain -12.9783%/10.7642%/24.8753%; but 40%/50%/10% probability-weighted wealth is now HKD580.2108 and its CAGR is **5.9789%**, not an average of scenario IRRs. Net-SGD replay matches -15.0274%/10.0111%/25.7487% and **5.3433%** probability-weighted. CSA independently reproduced the RT stress outputs. The P&C insurer lane is not applicable; Tencent is not an insurer, and absence of `insurer_return_bridge.json` is correct.

1. The most fragile assumption

The most fragile explicit operating assumption is **FinTech and Business Services / Business Services analytical line / Base terminal gross margin of 48.0%**, up from a calibrated 35.93%. Tencent does not disclose Business Services revenue, gross profit, ARR, RPO, paid-agent retention or accelerator utilization; the 85%/15% FinTech/Business Services split is itself analytical. The 12.1-point expansion requires price increases to hold, customized work to remain pruned, paid AI mix to rise, and the 2026-27 compute fleet to achieve high utilization simultaneously. That is precisely where the evidence is weakest.

A full 12-point miss, holding all other Base inputs fixed, lowers terminal gross profit by CNY7.919B, statutory diluted EPS by about HKD0.839, terminal wealth by HKD12.59 and Base IRR from 10.764% to 10.376%. It is not material alone because Business Services is modeled as only 15% of the segment at the anchor. Its importance is diagnostic: if the most compute-intensive product cannot produce margin leverage, the larger company-wide assumption that AI costs normalize is also suspect.

2. The most-likely-to-be-optimistic Stage 5 number

The number most likely to be revised down is **Base 2031 statutory operating margin of 35.77%**. It requires the weighted major-segment gross margin to expand while selling and marketing falls to 5.7% of revenue and G&A falls to 17.5%, despite infrastructure depreciation, AI-model R&D, inference and product-distribution cost. Tencent's [Q2 2026 release](https://www.tencent.com/wp-content/uploads/2026/08/Tencent-Announces-2026-Second-Quarter-Results.pdf) shows the conflict in one quarter: capex was CNY52.8B, up 176%; FCF was negative CNY13.8B; and non-IFRS operating profit excluding New AI Products was CNY86.1B versus reported non-IFRS operating profit of CNY75.6B. New AI Products therefore consumed roughly CNY10.5B of quarterly operating profit before they proved a disclosed payback.

A 400-basis-point terminal operating-margin miss reduces Base OI by CNY44.538B and EPS by HKD4.719 to HKD41.281. At the locked 15x P/E and unchanged distributions, terminal wealth falls to HKD652.80 and Base IRR to **8.51%**, down **2.26 percentage points**. This was material. It is resolved because repaired S freezes the stress, repaired CS publishes it, CSA independently replays it at 8.5070%, and the higher Bear weight incorporates the resulting uncertainty without silently changing Base.

3. Strongest bear case, in its strongest form

Tencent is converting a high-return social/games franchise into the funding source for an AI infrastructure and product arms race whose economics are undisclosed and whose leading interfaces may belong to competitors. Within two years, AI capex, depreciation and R&D remain high while AI-native products fail to monetize; Marketing decelerates after the in-app-game comparison, WorkBuddy remains a low-retention or free product, and VAS subscriptions/title cohorts soften together. This is not diversified downside: 88.1% of FY2025 revenue was assigned to Chinese Mainland, while OPCOs holding critical licences generated roughly CNY430B, or 57% of FY2025 revenue, through contractual arrangements rather than direct equity ownership. A regulatory or VIE-enforcement shock therefore hits access, data use, advertising, gaming, payments and valuation at the same time, while reduced FCF crowds out buybacks and dividends.

The structure risk is not hypothetical boilerplate. Tencent's [2025 Annual Report](https://static.www.tencent.com/uploads/2026/04/09/62d786fcf3d3c8cb7e54791ee95439ac.pdf) says the contracts may be less effective than direct ownership, legal interpretation is uncertain, and future treatment as foreign investment could materially affect the structure and results. The July 2026 CAC draft would require large platforms to strengthen compliance and restrict harmful use of data, algorithms and platform rules, while AI services with public-opinion attributes require security assessment and algorithm filing ([CAC draft](https://www.cac.gov.cn/2026-07/03/c_1784822399677167.htm)); the regulator's 2026 AI cleanup already acted against more than 14,000 non-compliant AI products in its first phase ([CAC enforcement update](https://www.cac.gov.cn/2026-07/06/c_1785081384384987.htm)). The bear is validated when core AI monetization slows while the compliance and compute burden remains.

4. Cross-examination of management commentary

Management statement	Skeptical reading	First contrary evidence
Q2 2026 Ma: stepped-up compute procurement “will enable us to convert usage … into revenue going forward.”	Usage is not revenue and revenue is not return. The same quarter showed a CNY10.5B New-AI-Product operating-profit gap and negative FCF. Baidu's official Q2 showed AI Cloud Infra +50%, but AI Applications only +3% and AI-native Marketing flat, demonstrating that infrastructure demand can coexist with weak application monetization ([Baidu Q2 2026](https://ir.baidu.com/news-releases/news-release-details/baidu-announces-second-quarter-2026-results)).	AI-product operating loss fails to narrow below 3 percentage points of group non-IFRS revenue, or paid-agent retention/ARR remains undisclosed through H1 2027.
Q2 2026 Mitchell: Tencent is “outperforming the overall China advertising market.”	Relative outperformance does not defend a 9.77% five-year Marketing CAGR if the market and AI pricing both slow. Kuaishou's official Q2 online-marketing growth was only 4.4%, while gross margin fell to 51.6% from 55.7%, despite deep AI integration ([Kuaishou Q2 2026](https://ir.kuaishou.com/news-releases/news-release-details/kuaishou-technology-announces-second-quarter-and-interim-2026)).	Tencent Marketing growth below 10% for two quarters, especially with gross margin below 55%, would show the current 22% was launch/mix rather than durable yield.
Q2 2026 Lau: Tencent will “only keep on investing if it generates a great return.”	No return hurdle, utilization bridge, capital envelope or payback period is disclosed. H1 capex already exceeded FY2025, net cash fell 22% YoY, and management calls capital allocation dynamic.	TTM FCF/NOPAT below 70% for two consecutive reporting dates while capex stays above 12% of revenue and repurchases slow.

5. Stage 5 tie-out reverification

The TTM recency anchor is correct: FY2025 less H1 2025 plus H1 2026, with no overlapping quarter. The starting trend is not universally stale, but it is less smooth than Base implies. Q3 2025 to Q2 2026 VAS growth was 16%, 14%, 4%, 8%; International Games moved from 43% and 32% to 13% and -0.8%; Marketing held 17%-22%; FinTech and Business Services held 8%-10%. S appropriately avoids extrapolating headline International Games growth, but Base still assumes simultaneous recovery or leverage across nearly every major line.

The share-count arithmetic is exact, but capital-return funding remains a decision sensitivity. Base spends CNY300B on repurchases and pays HKD33.58 per share of dividends while AI capex is elevated. TTM FCF of CNY188.5B makes this possible, not inevitable. If AI capex crowds out all Base repurchases but SBC issuance continues, terminal shares rise from 8,767.7M to about 9,420.3M. If distributions are also set to zero, Base IRR falls to **8.15%**, 2.61 points below audited Base. Repaired S explicitly freezes that path; CS reports 8.1524%, and CSA replays it. The joint 400bp margin miss plus no-buyback/zero-distribution stress produces **5.8364%** Base IRR. The capital-return objection is therefore visible and resolved rather than hidden.

The largest competitor gap is Marketing, where Base compounds 9.77% and ends at 59% gross margin while Kuaishou's latest official advertising growth is 4.4% and group gross margin compressed 410 basis points. Tencent has a stronger closed loop, so this is not a direct forecast substitute; it is evidence that AI-enabled ad tooling does not prevent rapid deceleration. Repaired S now joins weak AI monetization, high compute cost, softer ad demand, agent disintermediation and regulation in the higher Bear weight rather than narrating them as independent risks.

6. Score-derived 20% return claim

The audited score says the 20% case **does not clear**, and RT agrees. Repaired CSA keeps the audited Compounder Score at **62/100**, Business Quality at **56/80**, and 20% Return Underwriting at **6/20**, with **Reject** classification. The arithmetic is revealing: Base requires HKD69.7567 EPS at 15x, an 18.96% EPS CAGR from normalized TTM, versus only 9.46% in locked Base. Alternatively it requires a 22.7468x exit P/E on Base EPS versus the 14.8225x normalized current P/E. Even locked Bull EPS of HKD67.3768 with Bull distributions but a flat 15x exit produces only **19.29%**, so the 20% outcome depends on some multiple expansion even after Bull operating execution.

The claim most likely to be misused is the HKD290.79 “maximum buy price.” It is arithmetically correct only for locked Base EPS, 15x and Base distributions. It is not a general intrinsic-value threshold. If Base exits at 13x or AI investment interrupts distributions, the 20% buy-price ceiling is materially lower and must be recalculated. The score audit's conclusion-not the standalone maximum-price number-is the robust output.

7. Two-sided valuation challenge

Why the audited valuation is too optimistic

The strongest remaining optimistic feature is Bull's conjunction of 10.44% revenue CAGR, 41.61% terminal OI margin, a 19x P/E, CNY30B investment gains and CNY35B associate/JV income. The comparable current denominator normalizes the last two lines to CNY12B and CNY18B. Replacing only Bull's excess CNY35B below-line contribution with the Base-normalized level cuts Bull EPS by HKD3.790 and Bull IRR from 24.88% to 23.48%. A 16x exit P/E, still above current normalized P/E, cuts Bull IRR to 20.79%. A joint 13x Base/16x Bull sensitivity produces about 6.83% probability-weighted gross IRR under the old weights; under repaired 40/50/10 it would be lower still. These are non-controlling sensitivities. The repair makes them non-blocking by reducing Bull to 10% and explicitly preserving the jurisdiction/VIE risk even in Bull.

The original weights were demonstrably material: changing only 30/50/20 to 40/50/10 reduced expected wealth from HKD690.34 to HKD580.21, gross probability-weighted IRR from 9.73% to 5.98%, and net-SGD probability-weighted IRR from 9.40% to 5.34%. This is the main reason the correct status is `MATERIAL_RESOLVED`, not `IMMATERIAL`.

Why the audited valuation is too bearish

Bear stacks related outcomes: essentially flat VAS, Marketing margin compression, FinTech/Business margin pressure, 19.5% G&A, net interest expense, a CNY10B investment loss, zero associate profit, slower buybacks and a 10x P/E. A bad operating and policy environment justifies correlation, but the low multiple also capitalizes that damage. Normalizing only Bear's investment and associate lines from -CNY10B/zero to CNY12B/CNY18B adds HKD4.065 EPS and improves Bear IRR from -12.98% to **-9.93%** at the same 10x. Raising only the P/E to 12x improves it to -10.08%; doing both gives **-6.88%**, 6.10 points above audited Bear.

The balance sheet remains solvent and positive earnings survive, while the VIE OPCOs themselves reported only CNY27B of net assets and transferred surplus cash to WFOEs. Therefore a VIE shock cannot be modeled responsibly as a mechanical loss of 57% of group equity. Repaired S and VP correctly express the unquantifiable tail through higher Bear incidence without inventing a loss-given-event. This is punitive but internally coherent.

8. P&C insurer return-bridge cross-examination

Not applicable. Tencent is not a property-and-casualty insurer or similar risk-bearing carrier. No retained-versus-managed investment, fee/NCI insurer bridge, common-book insurance roll-forward, ROE/P/B identity or negative-EPS-to-zero-equity test is required. The missing `insurer_return_bridge.json` is therefore not a defect.

9. Signal that forces an exit

Exit signal: over the next two reported quarters, Marketing Services revenue grows **below 10% YoY in both quarters** and its gross margin is **below 55% in either quarter**, while TTM FCF/NOPAT falls below **70%**. This is deliberately a two-quarter

composite to avoid selling on a compute-prepayment timing artifact. It would show that AI is neither preserving advertiser yield nor converting the infrastructure burden into cash, invalidating both the 9.77% Base Marketing CAGR and the assumed return to company-wide operating leverage.

10. Conviction and decision status

Conditional: the operating franchise survives the red team, but the investment conclusion does not clear. P/E remains the right primary method, all audited arithmetic is sound, and the repaired scenario distribution now reflects the most important common-factor tail. However, at HKD434 the Base gross return is only 10.76%, probability-weighted gross return is 5.98%, probability-weighted net-SGD is 5.34%, Bear is deeply negative, and the 20% case requires expansion. The repaired audited classification of **Reject / neither dream business nor dream investment** is therefore the decision status that survives RT. The separate ER2 P/E-15 gate passes, but it does not override the return evidence. No ranking, sizing, trading, messaging or portfolio action is authorized; `trade_execution_authorized=false`.

`RETURN_MODEL_OBJECTION_STATUS: MATERIAL_RESOLVED`

Repair trail accepted: S reweighted scenarios to 40/50/10 and added the explicit margin, no-buyback/zero-distribution and joint stresses; VP revalidated PE, claims, VIE treatment and 10x/15x/19x conditional exits; CS recalculated gross and net-SGD probability-weighted wealth; CSA independently replayed the repaired chain. Final publication should bind the repaired S/VP/CS/CSA hashes and the `MATERIAL_RESOLVED` RT status. Any later change to weights, terminal EPS, distributions, exit P/Es or the VIE/claim treatment requires the normal S/VP/CS/CSA/RT rerun order.

Tencent Holdings (0700.HK) - Data Package

Run ID: `pulse-cio-20260909T160334+0800` Information date: 2026-09-09 Reporting currency: CNY; tables use CNY billions unless otherwise stated. Security: Tencent Holdings Limited ordinary share, `XHKG:0700`, HKD counter. Research only; `trade_execution_authorized=false`.

0a. Industry classification and disclosure inventory

Tencent is a foreign-listed, diversified internet-platform and technology company reporting under IFRS through HKEX annual, interim, and quarterly announcements. Its fiscal year ends December 31. The controlling source set is Tencent's official annual reports, interim reports, quarterly results announcements, presentations, and HKEX filings. FMP's annual and quarterly product-segmentation endpoints were pulled live on 2026-09-09 and both returned an empty array. Live FMP consolidated statements are comparison data, while official Tencent disclosures control segment, product, KPI, and discrepant consolidated rows.

The industry checklist was built ad hoc from Tencent's own headings: communications and social, domestic and international games, digital-content subscriptions, marketing inventories and ad technology, commercial payments, wealth management, consumer loans, cloud services, Mini Programs, Mini Games, Mini Shops, AI models and agents, infrastructure capex, and shareholder returns. No P&C ownership-perimeter schedule applies.

Live source inventory and hashes

Source ID	Live source retrieved in this run	Coverage	Exact archived SHA-256
AR2021	[Tencent Annual Report 2021](https://static.www.tencent.com/uploads/2022/04/07/7c31a327fb1c068906b70ba7ebede899.PDF)	FY2021 and FY2020 comparison	`6c9172a17b378c5127a344d6955864c6fd6ff0de67eb5bf77acce0abb98fa142`
AR2022	[Tencent Annual Report 2022](https://static.www.tencent.com/uploads/2023/04/06/214dce4c5312264800b20cfab64861ba.pdf)	FY2022 and FY2021 comparison	`ea8beff1ed60f54eb4cd9981e37ed299ef9aeac1a0b4c476d736a15a02d3932b`
AR2023	[Tencent Annual Report 2023](https://static.www.tencent.com/uploads/2024/04/08/e95c902973fc282be3b3e285c6245281.pdf)	FY2023 and FY2022 comparison	`df7d4ae4e473bd90680e62304af953eb68333b848650c9908c67778613581688`
AR2024	[Tencent Annual Report 2024](https://static.www.tencent.com/uploads/2025/04/08/1132b72b565389d1b913aea60a648d73.pdf)	FY2024 and restated FY2023	`95b0652da8294527d150a56a9de293627b53e73b4a4c21202c153ea6eb4e9134`
AR2025	[Tencent Annual Report 2025](https://static.www.tencent.com/uploads/2026/04/09/62d786fcf3d3c8cb7e54791ee95439ac.pdf)	FY2025 and FY2024	`2a7547168077c3d9994af673125e77612e8656bc0f17ad189371d7e4088f4e98`
IR2026	[Tencent Interim Report 2026](https://www.tencent.com/wp-content/uploads/2026/08/E700_IR.pdf)	H1 and Q2 2026 with 2025 comparatives	`4170f80ec8548ea2fb92ec04691a4b252a52de20941e48fb516baf3f98082639`
Q3R25	[3Q2025 earnings release](https://static.www.tencent.com/uploads/2025/11/13/a33b6f19738615834787623f17d20ba3.pdf)	Q3 2025	`fb7c420e1052dc48b79b9115fe91376af5c71a7e538a35d99fbf43b110093dc3`
FYR25	[FY2025 and 4Q2025 earnings release](https://static.www.tencent.com/uploads/2026/03/18/bd32d8ee320b72f0d72d545fd2d65851.pdf)	FY and Q4 2025	`2c55dc6bf2e3c7723f4f374195fc801c7b782379efc34cec5b1f794bd0ba7d7d`
Q1R26	[1Q2026 earnings release](https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf)	Q1 2026	`2d07b610009a3c4564fe8a6b5a88f741794fe347ab22aff79d0775b8d2e92254`
Q2R26	[2Q2026 earnings release](https://www.tencent.com/wp-content/uploads/2026/08/Tencent-Announces-2026-Second-Quarter-Results.pdf)	Q2 and H1 2026	`64d8d2038eeef993571b96bb3361b6f1a567d6e84157eb16af20d2fd9a095f0a`

Source ID	Live source retrieved in this run	Coverage	Exact archived SHA-256
KIT26	[Tencent Corporate Overview, June 2026](https://static.www.tencent.com/uploads/2026/06/17/8bc964b385a06fabaecb8b6ce0bffff4.pdf)	Current investor-kit business/KPI map	`13d35e025ebdf499aeae7d0c918b42c4f6a092762fa0ecd8d55793f30674d385`
FMP-IS	[FMP stable income-statement endpoint](https://financialmodelingprep.com/stable/income-statement?symbol=0700.HK&period=annual)	FY2018-FY2025 live response	`26c2d31b5597d4df11329dcb6048eaa6e761e3c234708fc20f15186a13ec1a63`
FMP-BS	[FMP stable balance-sheet endpoint](https://financialmodelingprep.com/stable/balance-sheet-statement?symbol=0700.HK&period=annual)	FY2018-FY2025 live response	`ec48f26e9ba4b00aac76dcc512a20854e0cfaf32111dd84b9ea62f131472b545`
FMP-CF	[FMP stable cash-flow endpoint](https://financialmodelingprep.com/stable/cash-flow-statement?symbol=0700.HK&period=annual)	FY2018-FY2025 live response	`2eb3e956bc63d35aef55e2e4f779f6859af174b4c52dfb543efbd96a2bfba5ba`
FMP-PROD	[FMP product endpoint](https://financialmodelingprep.com/stable/revenue-product-segmentation?symbol=0700.HK&period=annual)	Annual and quarterly responses empty	`4f53cda18c2baa0c0354bb5f9a3ecbe5ed12ab4d8e11ba873c2f11161202b945`
FMP-TR	[FMP transcript endpoint](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=0700.HK&year=2026&quarter=2)	Q2/Q1 2026 and Q3 2025 live transcripts	Q2 `4b718d9c1604531820408c1daa714c5bb5646c5356303af866e44711af3eb6d3`; Q1 `3601037bdf0c69fc2de4c34056dcc21e2a48d4baa37e59ae17e21ee3b3b8dd92`; Q3 `d7d84186e7e51a89a6301030b411194742b73586d2846e7ae844dc2c3d0cb90d`

Search terms checked in official PDFs and Tencent's results/investor-kit pages: `segment information`, `gross profit`, `Domestic Games`, `International Games`, `Social Networks`, `Marketing Services`, `Video Accounts`, `Weixin Search`, `Mini Programs`, `Mini Games`, `Mini Shops`, `commercial payment volume`, `wealth management`, `consumer loans`, `cloud services`, `AI`, `Hunyuan`, `Hy3`, `WorkBuddy`, `CodeBuddy`, `AIM+`, `MAU`, `subscriptions`, `capital expenditures`, `research and development`, `repurchases`, `dividends`, `geographical location`, and `reportable segments`.

Completeness matrix

Dataset / table family	Official source searched	Search terms or table names	Years available	Included?	If excluded, why	Downstream relevance
Segment economics	AR2021-AR2025; IR2026 Note 6	segment information; revenue; gross profit	FY2021-FY2025; H1/Q2 2026	Yes	None	Segment forecasts and statutory bridge
VAS product dollars	Annual MD&A; quarterly releases	Domestic Games; International Games; Social Networks	FY2021-FY2025; last four quarters	Yes	None	VAS mix, durability, growth
User/subscription KPIs	Annual/interim operating tables	Weixin/WeChat MAU; QQ MAU; fee-based VAS subscriptions	FY2021-FY2025; Q2 2026	Yes	None	Network effects and content demand
Advertising drivers	Annual/interim MD&A and calls	Video Accounts; Search; ad load; eCPM; AIM+	Qualitative FY2021-FY2025; last four quarters	Yes	Product dollars not disclosed	Marketing forecast
Commerce/fintech KPIs	Annual/interim MD&A and calls	Mini Shops GMV; payment volume; wealth; loans	Qualitative FY2021-FY2025; latest quarter	Yes	Dollar split/absolute volume not disclosed	Ecosystem monetisation
Cloud/AI	Reports; June 2026 overview; calls	cloud revenue; AI services; compute; agents; capex	Qualitative FY2021-FY2025; Q2 2026	Yes	Cloud dollars and ARR not disclosed	Business Services/capex
Capital/balance sheet	Annual statements	capex; R&D; debt; deposits; equity; buybacks	FY2021-FY2025; H1 2026	Yes	None	ROIC, liquidity, returns
Recent trend	Q3 2025-Q2 2026 releases	segment/product revenue; gross margin	Four quarters	Yes	Segment OI not allocated	Recency anchor

Historical internet-platform KPI families

KPI family	Granularity	FY2021	FY2022	FY2023	FY2024	FY2025	Latest interim / quarter	Source path
Combined MAU of Weixin/WeChat, m	Platform	1,268.2	1,313.2	1,343	1,385	1,418	1,439 at Q2 2026	Annual operating tables; IR2026 p.6
Mobile/smart-device QQ MAU, m	Platform	552.1	572.1	554	524	508	520 at Q2 2026	Annual operating tables; IR2026 p.6
Fee-based VAS subscriptions, m (definition changes in FY2024)	Digital content	236.3 registered	233.8 registered	248 registered / 244 recast average daily	262 average daily	267 average daily	259 average daily at Q2 2026	AR2021-AR2025 operating tables; IR2026 p.6
Domestic Games revenue, CNY B	VAS product	128.8	123.9	126.7	139.7	164.2	92.7 in H1 2026	Annual MD&A; Q1R26; Q2R26
International Games revenue, CNY B	VAS product	45.5	46.8	53.2	58.0	77.4	37.4 in H1 2026	Annual MD&A; Q1R26; Q2R26
Social Networks revenue, CNY B	VAS product	117.3	116.9	118.5	121.5	127.7	64.4 in H1 2026	Annual MD&A; Q1R26; Q2R26
Video Accounts engagement, YoY	Engagement	Time/user and video views more than doubled	Time spent tripled	Total user time more than doubled	Total user time rapid; no percentage	Total user time more than 20%	Total time spent more than 20% in Q2	Annual reviews; IR2026
Mini Games gross receipts, YoY	Ecosystem	Not quantified	Not quantified	More than 50%	Not quantified	Not quantified	Not quantified	Annual business reviews
Weixin commerce activity	Ecosystem	Mini Programs physical-goods GMV doubled	Mini Programs transaction value was several trillion CNY	No comparable quantified KPI	Mini Shops launched; no numeric KPI	Rapid Mini Shops/Mini Games/Mini Programs engagement; no rate	No comparable numeric KPI at Q2 2026	Annual business reviews; IR2026
Issuer-defined capex, CNY B	Infrastructure	33.4	18.0	23.9	76.8	79.2	84.7 in H1 2026	Annual OFI tables; IR2026

`Not quantified` means official qualitative discussion exists but no exact comparable percentage or absolute value was disclosed. The subscription series crosses a definition boundary: FY2021-FY2023 originally reported registered subscriptions, while FY2024 onward uses average daily subscriptions; AR2024 recast FY2023 to 244M on the latter basis.

1. Reporting structure and taxonomy

Tencent's CODM evaluates four reportable segments primarily on segment revenue and **gross profit**. Segment operating income is not allocated.

Segment	Description	FY2025 revenue, CNY B	Share of total
Value Added Services	Domestic/international games and social-network digital content/services	369.281	49.12%
Marketing Services	Advertising inventory and marketing technology	144.973	19.28%
FinTech and Business Services	Payments, wealth/loans, cloud, WeCom, e-commerce technology	229.435	30.52%
Others	Film/television, licensing, merchandise, other activities	8.077	1.07%
Group	Consolidated	751.766	100.00%

Taxonomy flags:

- Tencent renamed `Online Advertising` to `Marketing Services` during FY2024. AR2024 Note 6 presents FY2023 comparatives under the new name; the economic perimeter did not materially change.
- AR2023 reclassified certain investment-related items from above to below operating profit and restated prior-period comparatives. Statutory OI before that boundary is less comparable than segment revenue/gross profit.
- Games and Social Networks have been separately dollar-disclosed inside VAS since Q3 2021. The FY2021-FY2025 history is comparable.
- Reporting is economically stable across FY2021-FY2025 apart from the advertising rename and 2023 income-statement classification change.

FY2025 revenue was CNY662.119B from Chinese Mainland and CNY89.647B from Others, or 88.08% and 11.92%. FY2024 was CNY595.458B and CNY64.799B, or 90.19% and 9.81%. Tencent does not provide a five-year product-by-geography revenue matrix.

2. Consolidated historicals

Official rows control where live FMP differs. FCF is the ER2 mechanical series: official operating cash flow less Tencent issuer-defined capex, not FMP's broader PP&E-plus-intangibles perimeter.

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue, CNY B	560.118	554.552	609.015	660.257	751.766	Live FMP-IS; annual reports
Statutory operating profit, CNY B	124.656	110.827	160.074	208.099	241.562	AR2025 five-year financial summary; live FMP-IS
Operating margin	22.26%	19.99%	26.28%	31.52%	32.13%	Calculated
Parent net profit, CNY B	224.822	188.243	115.216	194.073	224.842	Annual reports; live FMP tie
Diluted EPS, CNY	23.164	19.341	11.887	20.486	24.153	Official annual reports
Diluted weighted shares, m	9,696	9,695	9,610	9,408	9,244	Live FMP-IS; official tie FY2024-25
Issuer-defined capex, CNY B	33.392	18.014	23.893	76.760	79.198	Official OFI tables
ER2 mechanical FCF, CNY B	141.794	128.077	198.069	181.761	223.854	Official OCF less issuer capex
Diagnostic ROIC	14.3%	12.1%	14.8%	18.9%	18.9%	Calculation below

ROIC: `NOPAT = statutory operating profit × (1 − effective tax rate)`; invested capital is average beginning/end `parent equity + total debt − cash − short-term investments` from live FMP. Tax rates were 8.16%, 10.23%, 26.83%, 18.64%, and 17.11%. NOPAT was CNY114.5B, 99.5B, 117.1B, 169.3B, and 200.2B; average invested capital was CNY798.8B, 820.3B, 788.8B, 894.9B, and 1,058.4B. AR2025's five-year summary preserves the AR2023 restatement that moved investment-related items below operating profit; the current-basis FY2021 figure is therefore CNY124.656B, and the pre-/post-restatement trend should still be interpreted cautiously.

Live FMP versus official discrepancies

Period and line	Live FMP	Official	Delta, FMP less official	Treatment
FY2021 statutory operating profit, CNY M	271,620	124,656	146,964	AR2025 restated five-year series controls; FMP retains the pre-restatement classification
FY2025 gross profit, CNY M	422,870	422,593	277	Official segment sum controls
FY2025 diluted EPS, CNY	23.520	24.153	-0.633	Official numerator/denominator controls
FY2025 cash/equivalents, CNY M	148,081	141,041	7,040	Official statement controls
FY2025 capex, CNY M	112,881	79,198	33,683	FMP broader; issuer capex controls
H1 2026 revenue, CNY M	399,467	401,243	-1,776	Official interim controls
2026-06-30 cash/equivalents, CNY M	214,620	206,930	7,690	Official interim controls
Annual product segmentation	Empty	Official table	Not numeric	Official replacement
Quarterly product segmentation	Empty	Official table	Not numeric	Official replacement

3. Segment historicals

The exact common segment-profit basis is **Gross profit**. No row below is segment operating income.

Value Added Services

Value Added Services	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue, CNY B	291.572	287.565	298.375	319.168	369.281	AR2021-AR2025 Note 6/MD&A
YoY growth	10.4%	-1.4%	3.8%	7.0%	15.7%	Calculated
Gross profit, CNY B	152.936	145.647	161.919	181.657	222.296	Official revenue less cost FY2021-22; reported GP FY2023-25
Gross margin	52.45%	50.65%	54.27%	56.92%	60.20%	Calculated

Online Advertising / Marketing Services

Online Advertising / Marketing Services	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue, CNY B	88.666	82.729	101.482	121.374	144.973	AR2021-AR2025 Note 6/MD&A
YoY growth	7.8%	-6.7%	22.7%	19.6%	19.4%	Calculated
Gross profit, CNY B	40.594	35.009	51.344	67.232	83.389	Official revenue less cost FY2021-22; reported GP FY2023-25
Gross margin	45.78%	42.32%	50.59%	55.39%	57.52%	Calculated

FinTech and Business Services

FinTech and Business Services	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue, CNY B	172.195	177.064	203.763	211.956	229.435	AR2021-AR2025 Note 6/MD&A
YoY growth	34.4%	2.8%	15.1%	4.0%	8.2%	Calculated
Gross profit, CNY B	51.396	58.374	80.636	99.701	116.616	Official revenue less cost FY2021-22; reported GP FY2023-25
Gross margin	29.85%	32.97%	39.57%	47.04%	50.83%	Calculated

Others

Others	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue, CNY B	7.685	7.194	5.395	7.759	8.077	AR2021-AR2025 Note 6/MD&A
YoY growth	2.5%	-6.4%	-25.0%	43.8%	4.1%	Calculated
Gross profit/(loss), CNY B	1.018	-0.284	-0.790	0.656	0.292	Official revenue less cost FY2021-22; reported GP FY2023-25
Gross margin	13.25%	-3.95%	-14.64%	8.45%	3.62%	Calculated

3a. Historical statutory-profit bridge and forecast-driver ledger

Packet basis: issuer-disclosed four-segment `Gross profit`; CNY millions. Exact bytes validate and match QFR's seal: `7840cdbab10aee0c97531586ebcc1837b6470951d6963bf3ce5895e17a5ea922`.

FY2025 ended 2025-12-31

Bridge line	Classification	Value, CNY M	Source ID	Running subtotal, CNY M
VAS gross profit	segment profit	222,296	TENCENT_AR2025	222,296
Marketing Services gross profit	segment profit	83,389	TENCENT_AR2025	305,685
FinTech and Business Services gross profit	segment profit	116,616	TENCENT_AR2025	422,301
Others gross profit	segment profit	292	TENCENT_AR2025	422,593
Sum of reportable segment profit	subtotal	422,593	TENCENT_AR2025	422,593
Selling and marketing expenses	corporate_unallocated	-41,727	TENCENT_AR2025	380,866

Bridge line	Classification	Value, CNY M	Source ID	Running subtotal, CNY M
General and administrative expenses	corporate_unallocated	-136,127	TENCENT_AR2025	244,739
Other gains/(losses), net	corporate_unallocated	-3,177	TENCENT_AR2025	241,562
Consolidated segment profit metric	subtotal	241,562	TENCENT_AR2025	241,562
Statutory operating income	statutory subtotal	241,562	TENCENT_AR2025	241,562
Net gains/(losses) from investments and others	other_non_operating	10,168	TENCENT_AR2025	251,730
Interest income	interest	16,909	TENCENT_AR2025	268,639
Finance costs	interest	-15,130	TENCENT_AR2025	253,509
Share of profit/(loss) of associates and joint ventures, net	other_non_operating	23,740	TENCENT_AR2025	277,249
Pretax income	statutory subtotal	277,249	TENCENT_AR2025	277,249
Income tax expense	tax	-47,448	TENCENT_AR2025	229,801
Net income	statutory subtotal	229,801	TENCENT_AR2025	229,801

TTM ended 2026-06-30

Bridge line	Classification	Value, CNY M	Source ID	Running subtotal, CNY M
VAS gross profit	segment profit	235,215	TENCENT_IR2026	235,215
Marketing Services gross profit	segment profit	91,069	TENCENT_IR2026	326,284
FinTech and Business Services gross profit	segment profit	122,665	TENCENT_IR2026	448,949
Others gross profit	segment profit	-2,164	TENCENT_IR2026	446,785
Sum of reportable segment profit	subtotal	446,785	TENCENT_IR2026	446,785
Selling and marketing expenses	corporate_unallocated	-47,663	TENCENT_IR2026	399,122
General and administrative expenses	corporate_unallocated	-143,150	TENCENT_IR2026	255,972
Other gains/(losses), net	corporate_unallocated	2,571	TENCENT_IR2026	258,543
Consolidated segment profit metric	subtotal	258,543	TENCENT_IR2026	258,543
Statutory operating income	statutory subtotal	258,543	TENCENT_IR2026	258,543
Net gains/(losses) from investments and others	other_non_operating	19,235	TENCENT_IR2026	277,778
Interest income	interest	17,267	TENCENT_IR2026	295,045
Finance costs	interest	-13,287	TENCENT_IR2026	281,758
Share of profit/(loss) of associates and joint ventures, net	other_non_operating	8,313	TENCENT_IR2026	290,071
Pretax income	statutory subtotal	290,071	TENCENT_IR2026	290,071
Income tax expense	tax	-48,670	TENCENT_IR2026	241,401
Net income	statutory subtotal	241,401	TENCENT_IR2026	241,401

The operating-bridge array is empty. Corporate/unallocated items are not segment profit and must be projected separately; no zero placeholder or plug is introduced.

Forecast-driver schedule

Historical bridge line	FY2025, CNY M	TTM, CNY M	Forecast treatment	Driver and source	Bear / base / bull rule
Selling and marketing	-41,727	-47,663	Percent of revenue	Official ratios; AI-native-product/games marketing	Bear higher ratio; base TTM; bull leverage

Historical bridge line	FY2025, CNY M	TTM, CNY M	Forecast treatment	Driver and source	Bear / base / bull rule
General and administrative	-136,127	-143,150	Percent of revenue plus AI overlay	R&D and AI depreciation, AR2025/IR2026	Bear sustained burden; base scales; bull later leverage
Other gains/(losses), net	-3,177	2,571	Fixed/zero-normalised	Volatile official statutory row	Bear loss; base zero; bull sourced gain only
Net gains/(losses) from investments and others	10,168	19,235	Separate non-operating forecast	Official portfolio disclosures	Bear zero/loss; base normalised; bull evidenced gain
Interest income	16,909	17,267	Cash/deposits × yield	Official liquidity schedule	Bear lower; base current; bull higher cash
Finance costs	-15,130	-13,287	Debt × rate plus FX	Official debt/notes	Bear higher rate; base current; bull lower rate
Associates and JVs	23,740	8,313	Separate associate schedule	Statutory/non-IFRS disclosures	Bear zero/loss; base normalised; bull recovery
Income tax expense	-47,448	-48,670	Effective tax-rate schedule	FY2025 17.11%; TTM 16.78%	Bear higher; base 17%-19%; bull lower within history

STATUTORY_BRIDGE_STATUS: VERIFIED - CLEARED FOR FORECASTING

4. Product and sub-segment historicals

Products separately disclosed in dollars

Segment	Product	What it is	Dollar disclosure?	FY2021-FY2025 revenue, CNY B and source
VAS	Domestic Games	Mainland-China games revenue	Yes	128.8; 123.9; 126.7; 139.7; 164.2; AR2021-AR2025
VAS	International Games	Games revenue outside mainland China	Yes	45.5; 46.8; 53.2; 58.0; 77.4; AR2021-AR2025
VAS	Social Networks	Social VAS, digital content, virtual items	Yes	117.3; 116.9; 118.5; 121.5; 127.7; AR2021-AR2025
Marketing Services	Video Accounts, Search, Mini Programs	Advertising products/inventories	No	Aggregate segment dollars only
FinTech and Business Services	Payments, wealth, loans, cloud, WeCom, e-commerce tech	Separate economic engines	No	Aggregate segment dollars only
Others	Film, TV, licensing, merchandise	Small residual activities	No	Aggregate Others dollars only

No back-solved dollars are used. Games plus Social Networks equals VAS in every annual period and Q2/H1 2026.

Growth-only and operating KPI disclosures

Segment / product	Disclosure method	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Source
Video Accounts time spent	YoY only	Increased; no rate	More than 20% FY	More than 20%	More than 20%	Official reviews
Marketing Services	Segment YoY	21%	17%	20%	22%	Q3R25; FYR25; Q1R26; Q2R26
AIM+ ad-spend share	Adoption KPI	Introduced; increasing	Not quantified	About 30%	Upgraded; no share update	Calls/releases
Business Services	Growth language	Teens	22%	20%	Cloud-led; no separated rate	Official MD&A
FinTech Services	Growth language	High single-digit	Wealth/payments; no rate	Payments/wealth; no rate	Payments/wealth/loans; no rate	Official MD&A
Commercial payment volume	Directional	Faster than Q2	Grew; no rate	Faster than Q4	No volume rate	Calls/releases
Mini Shops GMV	Directional	Rapid growth	Underpinned fees	Rapid growth	Not quantified	Official reviews
Cloud services	Directional	AI demand; GPU constraint	Business Services +22%	AI/international demand	AI/international/pricing	Calls/releases

5. Most recent quarterly trend

Tencent’s FY ends December 31. Most recently completed quarter: FY2026 Q2, April-June 2026, reported 2026-08-12 via [Q2R26](https://www.tencent.com/wp-content/uploads/2026/08/Tencent-Announces-2026-Second-Quarter-Results.pdf).

Tencent does not allocate segment operating expenses. The exact disclosed profitability metric is **gross margin**, not operating margin.

Quarter	Segment	Revenue, CNY B	YoY	Gross margin	Source
Q3 2025	VAS	95.860	16%	61.2%	Q3R25; GP = FY less H1/Q4
Q3 2025	Marketing Services	36.242	21%	56.7%	Q3R25; GP = FY less H1/Q4
Q3 2025	FinTech and Business Services	58.174	10%	50.2%	Q3R25; GP = FY less H1/Q4
Q3 2025	Others	2.593	83%	16.0%	Q3R25; GP = FY less H1/Q4
Q4 2025	VAS	89.920	14%	59.5%	FYR25
Q4 2025	Marketing Services	41.116	17%	59.7%	FYR25
Q4 2025	FinTech and Business Services	60.818	8%	50.7%	FYR25
Q4 2025	Others	2.517	10%	-26.5%	FYR25
Q1 2026	VAS	96.110	4%	62.6%	Q1R26; GP = H1 less Q2
Q1 2026	Marketing Services	38.171	20%	55.0%	Q1R26; GP = H1 less Q2
Q1 2026	FinTech and Business Services	59.885	9%	52.1%	Q1R26; GP = H1 less Q2
Q1 2026	Others	2.292	103%	-44.9%	Q1R26; GP = H1 less Q2
Q2 2026	VAS	98.414	8%	63.9%	Q2R26; IR2026 Note 6
Q2 2026	Marketing Services	43.565	22%	57.3%	[Q2R26](https://www.tencent.com/wp-content/uploads/2026/08/Tencent-Announces-2026-Second-Quarter-Results.pdf); IR2026 Note 6
Q2 2026	FinTech and Business Services	60.286	9%	52.1%	Q2R26; IR2026 Note 6
Q2 2026	Others	2.520	37%	-35.1%	Q2R26; IR2026 Note 6

Quarter	Domestic Games	YoY	International Games	YoY	Social Networks	YoY	Source
Q3 2025	42.8	15%	20.8	43%	32.3	5%	Q3R25
Q4 2025	38.2	15%	21.1	32%	30.6	3%	FYR25
Q1 2026	45.4	6%	18.8	13%	31.9	-2%	Q1R26
Q2 2026	47.3	17%	18.6	-0.8%	32.5	0.8%	Q2R26

Consolidated statutory operating margins were 33%, 31%, 34%, and 33% across Q3 2025-Q2 2026. Q2 capex rose 176% YoY to CNY52.8B and reported FCF was negative CNY13.8B because OCF was more than offset by capex, content/lease payments, and AI-compute prepayments.

6. Management commentary on forward growth

Live FMP transcript dates: 2026-08-12 for Q2 2026, 2026-05-13 for Q1 2026, and 2025-11-19 for Q3 2025. The Q3 transcript date is six days after Tencent's official 2025-11-13 results date and inside the required ±30-day check. FMP returned [ ] for FY2025 Q4. The 2026-03-18 official annual release/presentation supplies prepared statements, not call Q&A. The latest investor-kit document checked was the June 2026 Corporate Overview; no separate current capital-markets-day transcript was found.

Value Added Services

Source / speaker	Verbatim excerpt	Topic	Modeling interpretation
Q3 FY2025 call; James Mitchell, CSO	"decelerate closer to the underlying trend line"	International Games	Q3's 43% included consolidation/upfront copy sales; do not extrapolate.
Q3 FY2025 call; James Mitchell	"continue seeking to acquire games studios"	Games M&A	Purchases remain a lever but need separate capital treatment.
Q3 FY2025 call; James Mitchell	"an expansion of the royal guard"	Games portfolio	Multiple franchises were expanding, reducing single-title dependence.
FY2025 release; Ma Huateng, Chairman/CEO	"supported more engagement with our games"	AI in games	AI works through engagement/content efficiency, not a separate revenue line.

Source / speaker	Verbatim excerpt	Topic	Modeling interpretation
Q1 FY2026 release; Ma Huateng	“grow their engagement, revenue and profit”	Core franchises	Core businesses are expected to fund AI investment.
Q2 FY2026 call; Huateng Ma	“rapidly increasing video views”	Video Accounts	Engagement supports VAS and ad inventory; monetisation stays separate.
Q2 FY2026 call; Chi Ping Lau, President	“become even more useful”	Weixin AI	Agentic functionality is positioned as ecosystem reinforcement.
Q2 FY2026 release; Tencent management	“grew more than 20% year-on-year”	Video Accounts time	Strong current engagement; no absolute time base disclosed.

Marketing Services

Source / speaker	Verbatim excerpt	Topic	Modeling interpretation
Q3 FY2025 call; James Mitchell	“continuation of current trends”	Ad outlook	AI and gentle demand improvement support directional growth.
Q3 FY2025 call; James Mitchell	“continue deploying more AI capabilities”	AIM+/targeting	Growth partly depends on model deployment.
Q3 FY2025 call; James Mitchell	“percentage ... is steadily increasing”	AIM+ adoption	Automated campaign penetration should rise; no terminal share guided.
FY2025 release; Ma Huateng	“AI capabilities improved our ad targeting”	Pricing/eCPM	AI is a principal eCPM driver; split pricing/impressions in forecasts.
Q1 FY2026 release; Tencent management	“approximately 30%”	AIM+ penetration	Only quantified recent adoption anchor.
Q2 FY2026 call; James Mitchell	“wouldn’t ... straight line extrapolate anything”	Q2 growth	Q2 included in-app-game ads and a choppy consumer backdrop.
Q2 FY2026 call; James Mitchell	“outperforming the overall China advertising market”	Market share	Relative outperformance does not remove cyclicality.
Q2 FY2026 release; Tencent management	“Most major industry categories increased”	Demand breadth	Broad advertiser participation supports resilience.

FinTech and Business Services

Source / speaker	Verbatim excerpt	Topic	Modeling interpretation
Q3 FY2025 call; James Mitchell	“there is a measured improvement”	Payments	Volumes were recovering; wording is modest.
Q3 FY2025 call; Chi Ping Lau	“improvement is still pretty nascent”	Consumption	More months were needed before calling a trend.
Q3 FY2025 call; James Mitchell	“positive mix shift toward higher-quality revenue”	Margins	Expansion is mix-led, including cloud optimisation.
Q1 FY2026 release; Tencent management	“Business Services revenues rose by 20%”	Cloud/e-commerce	Strong Q1 growth is not a full-cycle assumption.
Q2 FY2026 call; James Mitchell	“increased prices across the board”	Cloud pricing	May price increases/lower discounts improved pricing.
Q2 FY2026 call; James Mitchell	“already comparable”	Paid-token margin	Paid WorkBuddy/MaaS margin approximates Tencent Cloud; free users dilute.
Q2 FY2026 call; James Mitchell	“substantial ramp in the cash receipts”	WorkBuddy	Subscription accounting delays reported cloud revenue.
Q2 FY2026 call; Chi Ping Lau	“this year and next year”	AI capex	Model-building compute is framed as a 2026-27 lump-sum phase.

Others and corporate allocation

Source / speaker	Verbatim excerpt	Topic	Modeling interpretation
FY2025 release; Ma Huateng	“fund our increasing investments in AI”	Reinvestment	Core cash is earmarked for AI talent/infrastructure.
Q1 FY2026 call; Shek Hon Lo, CFO	“reduced share count after our share buybacks”	EPS	Repurchases require a diluted-share schedule.

Source / speaker	Verbatim excerpt	Topic	Modeling interpretation
Q2 FY2026 call; James Mitchell	“capital allocation will be dynamic”	Capex/buybacks	More compute could mean less repurchase cash.
Q2 FY2026 call; Chi Ping Lau	“only keep on investing if it generates a great return”	Compute discipline	Qualitative hurdle; no numeric ROIC target.
Q2 FY2026 release; Tencent management	“substantially stepped up our procurement of compute”	Infrastructure	Near-term FCF is depressed by procurement/prepayments.
June 2026 Corporate Overview; Tencent	“Value for Users, Tech for Good”	Strategic constraint	Monetisation is presented within user-value/regulatory limits.

7. Capital allocation history

Year	Issuer capex, CNY B	Capex / revenue	R&D, CNY B	R&D / revenue	Buybacks, CNY B	Dividends, CNY B	M&A / acquisitions net, CNY B	Source
FY2021	33.392	5.96%	51.880	9.26%	2.170	12.503	66.981	Official capex/dividend; live FMP CF/IS
FY2022	18.014	3.25%	61.401	11.07%	29.307	12.952	1.235	Official capex/dividend; live FMP CF/IS
FY2023	23.893	3.92%	64.078	10.52%	43.767	20.983	8.900	Official capex/dividend; live FMP CF/IS
FY2024	76.760	11.63%	70.686	10.71%	102.331	28.859	4.941	Official capex/dividend; live FMP CF/IS
FY2025	79.198	10.53%	85.747	11.41%	73.312	37.535	34.717	Official capex/dividend; live FMP CF/IS

Buybacks/M&A are cash-flow-statement CNY amounts. Tencent’s FY2025 market-purchase disclosure was 153.4M shares for HKD80.0B. FMP FY2025 capex was CNY112.881B because it uses a broader PP&E-plus-intangibles cash perimeter; this table retains issuer-defined infrastructure capex. H1 2026 capex was CNY84.720B, already above FY2025, and H1 repurchase cash was CNY22.257B.

8. Balance sheet snapshot

Item at FY2025	CNY B	Source
Cash and equivalents	141.041	AR2025 statement of financial position
Current term deposits / short-term investments proxy	236.801	AR2025 statement of financial position
Non-current term deposits	70.302	AR2025 statement of financial position
Borrowings plus notes payable	387.733	AR2025 notes; QF sealed schedule
Issuer-defined net cash	107.145	FY2025 release and AR2025
Net debt / EBITDA	-0.39x	CNY107.145B net cash / live-FMP EBITDA CNY273.397B
Intangible assets including goodwill	205.999	AR2025; goodwill within total CNY153.789B
Parent-attributable equity	1,154.152	AR2025 statement of financial position
Tangible parent book value	948.153	Parent equity less total intangibles

At 2026-06-30, cash/equivalents were CNY206.930B, current/non-current term deposits CNY214.275B/CNY52.724B, borrowings plus notes CNY452.963B, and issuer-defined net cash CNY58.191B. Higher debt and lower net cash coincide with accelerated AI compute procurement.

9. Recent corporate actions

- 2025-09-17: priced first CNY9B notes under the global medium-term-note programme; Tencent investor-news archive.
- FY2025: repurchased 153.4M shares for HKD80.0B; [FYR25](https://static.www.tencent.com/uploads/2026/03/18/bd32d8ee320b72f0d72d545fd2d65851.pdf).

- 2026-03-18: board recommended HKD5.30 final dividend per share versus HKD4.50 for FY2024; AR2025.
- May 2026: completed Ximalaya acquisition; Q2 transcript says it broadens audio books/podcasts and links Tencent Music/China Literature.
- 2026-06-10: priced US$2.45B and CNY15B notes under the global medium-term-note programme; Tencent investor-news archive.
- Q1 2026: repurchased 12.7M shares for HKD7.6B; [Q1R26](https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf).
- Q2 2026: repurchased 37.4M shares for HKD16.9B; [Q2R26](https://www.tencent.com/wp-content/uploads/2026/08/Tencent-Announces-2026-Second-Quarter-Results.pdf).
- 2026-08-14: announced grants under share-award/share-option schemes; Tencent announcements archive. Dilution must flow through weighted diluted shares.
- 2026-08-31: 9,103,150,424 issued ordinary shares excluding treasury shares; official August monthly return. This legal count is not substituted for 9,199M TTM weighted diluted shares.
- Through 2026-09-08: continued next-day disclosure returns for repurchases/issued-share changes. No split or consolidation identified.
- No CEO/CFO transition, earnings restatement, or large legal settlement was identified in official annual/interim/results/announcements sources for the last 12 months. Regulatory risk remains material, but no new company-disclosed enforcement item was found.

10. Open data gaps

Classification	Gap	Sources and exact search terms checked	Downstream treatment
True non-disclosure	Segment operating income	AR2021-AR2025/IR2026 Note 6; `operating profit`, `segment information`, `CODM`	Use gross profit; forecast central expenses separately
True non-disclosure	Marketing dollars by Video Accounts, Search, Mini Programs, ad network	Annual/interim MD&A/releases; product names plus `revenue`	No invented dollars; segment revenue + drivers
True non-disclosure	FinTech split among payments/wealth/loans and cloud	Annual/interim MD&A/Note 6; product names	Aggregate segment dollars; growth language only
True non-disclosure	Payment volume, Mini Shops GMV, ad load, eCPM, cloud ARR/RPO	Reports/June overview; exact KPI names	No back-solving; qualitative only
True non-disclosure	Five-year geographic revenue	AR2021-AR2025 Note 6; `geographical location`, `Chinese Mainland`, `Others`	Use FY2024-FY2025 broad split only
True non-disclosure	Current capital-markets-day transcript	Investor kit/calendar/results; `investor day`, `capital markets day`, `webcast`	June 2026 overview is supporting, not call transcript
Not fetched / omitted	FY2025 Q4 FMP transcript unavailable	Live transcript dates; `year=2025&quarter=4` returned `[]`; official FYR25/presentation retrieved	Official prepared statements only; no invented Q&A
Not fetched / omitted	None among identified material official KPI tables	Annual/interim/results/investor-kit pages all live-retrieved	No known table omitted
Estimated	Q3 2025 and Q1 2026 segment GP	Q3 = FY less H1/Q4; Q1 = H1 less Q2; official components	Marked calculated; totals reconcile
Not applicable	P&C ownership perimeter	Tencent is not an insurer/reinsurer	No Section 0b

Self-verification anchors: Q2 2026 VAS revenue growth was 8% and appears in the live official Q2 release; the live Q2 transcript date is 2026-08-12 and contains Huateng Ma’s compute-to-revenue statement; FY2025 revenue is CNY751.766B in both the live FMP annual endpoint and AR2025, a 0.00% difference.