

For Immediate Release

TENCENT ANNOUNCES 2016 SECOND QUARTER AND INTERIM RESULTS

Hong Kong, August 17, 2016 – Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 00700), a leading provider of Internet value added services in China, today announced the unaudited consolidated results for the second quarter (“2Q2016”) and the first half year of 2016 (“1H2016”) ended June 30, 2016.

1H2016 Key Highlights:

- Total revenues were RMB67,686 million (USD10,207 million¹), an increase of 48% over the first half year of 2015 (“YoY”).
- Operating profit was RMB27,727 million (USD4,181 million), an increase of 43% YoY. Operating margin decreased to 41% from 42% last year.
- Profit for the period was RMB20,148 million (USD3,038 million), an increase of 41% YoY. Net margin decreased to 30% from 31% last year.
- Profit attributable to equity holders of the Company for the period was RMB19,920 million (USD3,004 million), an increase of 40% YoY.
- Basic earnings per share were RMB2.128. Diluted earnings per share were RMB2.102.
- On a non-GAAP basis, excluding share-based compensation, net (gains)/losses from investee companies, amortization of intangible assets and impairment provision:
 - Operating profit was RMB28,171 million (USD4,248 million), an increase of 43% YoY. Operating margin decreased to 42% from 43% last year.
 - Profit for the period was RMB21,630 million (USD3,262 million), an increase of 41% YoY. Net margin decreased to 32% from 34% last year.
 - Profit attributable to equity holders of the Company for the period was RMB21,351 million (USD3,220 million), an increase of 41% YoY.
 - Basic earnings per share were RMB2.280. Diluted earnings per share were RMB2.253.

2Q2016 Key Highlights:

- Total revenues were RMB35,691 million (USD5,382 million), an increase of 52% over the second quarter of 2015 (“YoY”).
- Operating profit was RMB14,329 million (USD2,161 million), an increase of 43% YoY. Operating margin decreased to 40% from 43% last year.
- Profit for the period was RMB10,880 million (USD1,641 million), an increase of 47% YoY. Net margin decreased to 30% from 32% last year.
- Profit attributable to equity holders of the Company for the period was RMB10,737 million (USD1,619 million), an increase of 47% YoY.
- Basic earnings per share were RMB1.146. Diluted earnings per share were RMB1.133.
- On a non-GAAP basis, excluding share-based compensation, net (gains)/losses from investee companies, amortization of intangible assets and impairment provision:
 - Operating profit was RMB14,687 million (USD2,215 million), an increase of 42% YoY. Operating

¹ Figures stated in USD are based on USD1 to RMB6.6312.

- margin decreased to 41% from 44% last year.
- Profit for the period was RMB11,496 million (USD1,734 million), an increase of 42% YoY. Net margin decreased to 32% from 35% last year.
 - Profit attributable to equity holders of the Company for the period was RMB11,319 million (USD1,707 million), an increase of 42% YoY.
 - Basic earnings per share were RMB1.208. Diluted earnings per share were RMB1.194.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “During the second quarter, we sustained solid growth in our platforms and businesses, including our social and media platforms, games, digital content, advertising, and payment services. We executed strategic initiatives to strengthen our ecosystem and to reinforce our ability to bring best-in-class entertainment content to our users. For example, we integrated QQ Music with China Music Corporation to create the leading online music platform in China, which should help consumers to discover new music, artists to reach more fans, and record labels to drive fresh business models. And we invested in Supercell, the world’s leading mobile game studio, expanding our upstream presence in the global game industry and bringing us closer to hundreds of millions of game players globally. We believe high quality content, coupled with Tencent’s user base, distribution capability and targeted recommendation technology, position us and our partners to help develop the fast-changing digital entertainment market.”

2Q2016 Financial Review

Value Added Services (“VAS”). Revenues from our VAS business increased by 39% YoY to RMB25,680 million for 2Q2016. Online games revenues grew by 32% YoY to RMB17,124 million. The increase was primarily driven by contributions from our major PvP and RPG genre smart phone games, and to a lesser extent by several PC games. Social networks revenues increased by 57% YoY to RMB8,556 million. The increase was driven by virtual item sales and revenue growth from subscription services, especially those for digital content services such as video, music, and literature.

Online advertising. Revenues from our online advertising business increased by 60% YoY to RMB6,532 million for 2Q2016. Performance-based advertising revenues grew by 80% YoY to RMB3,697 million, mainly reflecting growth in performance advertising revenues from Weixin Moments, our mobile news app, and Weixin Official Accounts. Brand display advertising revenues increased by 41% YoY to RMB2,835 million, primarily driven by revenue growth from Tencent News and Tencent Video.

Others. Revenues from our others businesses increased by 275% YoY to RMB3,479 million for 2Q2016. The increase was mainly due to higher revenues from our payment related and cloud services.

Other Key Financial Information for 2Q2016

Share-based compensation was RMB862 million, up 31% YoY.

EBITDA was RMB15,581 million, up 52% YoY. Adjusted EBITDA was RMB16,401 million, up 50% YoY.

Capital expenditure was RMB1,505 million, down 47% YoY.

Free cash flow was RMB9,748 million, up 80% YoY.

As at June 30, 2016, the Company had net cash of RMB24,037 million. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB80 billion as at June 30, 2016.

Company Strategic Highlights

In recent months, we have conducted several initiatives to develop our online games and digital content businesses, such as:

- Growing our digital music business via integrating QQ Music with China Music Corporation, which operates another leading music streaming platform. We believe there is tremendous growth potential in the China music industry, and look forward to the integrated operations facilitating users to discover more music, artists to reach out to more fans, and the music industry to create new products and business models.
- Deepening our presence in mobile games via leading a consortium to acquire a majority equity stake in Supercell, the maker of globally popular titles such as Clash of Clans and Clash Royale. Supercell's founding team will continue to manage the company independently, enhancing their existing games and developing new games, and leveraging Tencent's platforms and expertise to expand in China.
- Reinforcing our online video business' upstream presence via further investing in film/TV series studios and in our own production projects.
- Developing our online literature services via working closely with industry peers to combat piracy, so as to provide more sustainable and healthy revenue for authors and for the industry.

During the quarter we also made organic progress around our other strategic priorities, such as building out our mobile ecosystem for Weixin and Mobile QQ users, enhancing our enterprise communications products, expanding our cloud services capabilities and customer base, and facilitating consumers to use our payment solutions for merchant transactions.

Business Review and Outlook

Operating information

- Monthly active user accounts ("MAU") of QQ was 899 million, an increase of 7% YoY.
- Smart device MAU of QQ was 667 million, an increase of 6% YoY.
- Peak concurrent user accounts ("PCU") of QQ (for the quarter) was 247 million, an increase of 6% YoY.
- Combined MAU of Weixin and WeChat were 806 million, an increase of 34% YoY.
- MAU of Qzone was 652 million, a decrease of 1% YoY.
- Smart device MAU of Qzone was 596 million, an increase of 4% YoY.
- Fee-based VAS registered subscriptions were 105 million, an increase of 25% YoY.

Key Platforms

- For QQ, smart device MAU increased by 6% YoY to 667 million. Mobile QQ usage benefited from enriched features in areas such as sticker-animated video editing, and from enhanced QQ Group functionalities, such as offering third-party online educational materials to users within school groups. In May 2016, we launched NOW, a live broadcast application which can link to the QQ social graph and enables users to generate and share real-time video streams.
- For Qzone, smart device MAU increased by 4% YoY to 596 million. User activity benefited from new features such as live broadcast, which facilitates users to share live video streams within their social networks.
- For Weixin and WeChat together, MAU reached 806 million, representing YoY growth of 34%. Weixin further penetrated into communication scenarios at work, with over 20 million registered users of Weixin Enterprise Accounts, which facilitate internal office automation operations. We enhanced consumer engagement via expanding the range of municipal services connected with Weixin, extending access to municipal services to more users in low-tier cities in China, and launching eLoyalty Cards, which merchants can issue to their customers in lieu of physical loyalty cards.

VAS

In 2Q2016, our social networks business sustained strong revenue growth as we increased virtual item sales and as our digital content subscription services became more popular.

For PC client games, we generated high single digit YoY revenue growth, with increased contributions from existing titles in genres such as sports, music, and action RPG, as well as from newer titles in genres such as RPG and shooter.

For smart phone games, we achieved approximately RMB9.6 billion revenue¹ in 2Q2016, representing 114% YoY revenue growth, with increased contributions from our major PvP titles, as well as new RPG titles.

Online Advertising

During 2Q2016, our online media platform traffic and advertising revenue continued to grow, with most of our traffic and about 80% of revenue generated on mobile platforms. Our Tencent Video views increased, supported by popular content such as our exclusive NBA rights in China, where unique viewers more than doubled online for the 2015-2016 season versus the 2014-2015 season, when the rights were split between multiple platforms. Our self-service tools enabled regional advertisers to purchase targeted traffic in low-tier cities on Weixin Moments, and we added new advertising formats, such as carousels on Qzone.

¹ Including smart phone games revenue attributable to our social networks business.

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



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About Tencent

Tencent uses technology to enrich the lives of Internet users. Every day, hundreds of millions of people communicate, share experiences, consume information and seek entertainment through our integrated platforms. Tencent's diversified services include QQ, Weixin/ WeChat for communications; Qzone for social networking; QQ Game Platform for online games; QQ.com and Tencent News for information and Tencent Video for video content.

Tencent was founded in Shenzhen in 1998 and went public on the Main Board of the Hong Kong Stock Exchange in 2004. The Company is one of the constituent stocks of the Hang Seng Index. Tencent seeks to evolve with the Internet by investing in innovation, providing a mutually beneficial environment for partners, and staying close to users.

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Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin, non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS, have been presented in this announcement. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

Forward-Looking Statements

This press release contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Company. These forward-looking statements are based on information currently available to the Company and are stated herein on the basis of the outlook at the time of this press release. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying the forward-looking statements is a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents on our corporate website.

CONSOLIDATED INCOME STATEMENT

RMB in millions, unless specified

	Unaudited		Unaudited	
	2Q2016	2Q2015	2Q2016	1Q2016
Revenues	35,691	23,429	35,691	31,995
VAS	25,680	18,428	25,680	24,964
Online advertising	6,532	4,073	6,532	4,701
Others	3,479	928	3,479	2,330
Cost of revenues	(15,235)	(8,991)	(15,235)	(13,406)
Gross profit	20,456	14,438	20,456	18,589
<i>Gross margin</i>	<i>57%</i>	<i>62%</i>	<i>57%</i>	<i>58%</i>
Interest income	626	598	626	703
Other gains, net	911	612	911	506
Selling and marketing expenses	(2,365)	(1,601)	(2,365)	(2,032)
General and administrative expenses	(5,299)	(4,011)	(5,299)	(4,368)
Operating profit	14,329	10,036	14,329	13,398
<i>Operating margin</i>	<i>40%</i>	<i>43%</i>	<i>40%</i>	<i>42%</i>
Finance costs, net	(377)	(341)	(377)	(491)
Share of losses of associates and joint ventures	(292)	(452)	(292)	(1,089)
Profit before income tax	13,660	9,243	13,660	11,818
Income tax expense	(2,780)	(1,847)	(2,780)	(2,550)
Profit for the period	10,880	7,396	10,880	9,268
<i>Net margin</i>	<i>30%</i>	<i>32%</i>	<i>30%</i>	<i>29%</i>
Attributable to:				
Equity holders of the Company	10,737	7,314	10,737	9,183
Non-controlling interests	143	82	143	85
Non-GAAP profit attributable to equity holders of the Company	11,319	7,975	11,319	10,032
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	1.146	0.787	1.146	0.981
- diluted	1.133	0.778	1.133	0.970

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited		Unaudited	
	2Q2016	2Q2015	2Q2016	1Q2016
Profit for the period	10,880	7,396	10,880	9,268
Other comprehensive income, net of tax:				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Share of other comprehensive income of associates	277	(168)	277	8
Net gains/(losses) from changes in fair value of available-for-sale financial assets	4,979	4,805	4,979	(1,653)
Transfer to profit or loss upon disposal of available-for-sale financial assets	79	(10)	79	-
Currency translation differences	1,308	(367)	1,308	(214)
Other fair value losses	(182)	-	(182)	(139)
<i>Items that may not be subsequently reclassified to profit or loss</i>				
Other fair value losses	(66)	-	(66)	(262)
Total comprehensive income for the period	17,275	11,656	17,275	7,008
Attributable to:				
Equity holders of the Company	17,116	11,594	17,116	6,920
Non-controlling interests	159	62	159	88

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		
	2Q2016	2Q2015	1Q2016
EBITDA (a)	15,581	10,258	14,329
Adjusted EBITDA (a)	16,401	10,899	15,004
Adjusted EBITDA margin (b)	46%	47%	47%
Interest expense	494	399	477
Net cash (c)	24,037	21,663	27,429
Capital expenditures (d)	1,505	2,841	4,105

Note:

- (a) EBITDA consists of operating profit less interest income and other gains/losses, net, and plus depreciation of fixed assets and investment properties and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net cash represents period end balance and is calculated as cash and cash equivalents, term deposits, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licenses).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB millions (unless otherwise stated)

	Unaudited June 30, 2016	Unaudited March 31, 2016
ASSETS		
Non-current assets		
Fixed assets	11,469	10,301
Construction in progress	4,066	5,176
Investment properties	710	291
Land use rights	4,066	4,087
Intangible assets	14,190	13,793
Investments in associates	64,092	60,747
Investments in redeemable preference shares of associates	8,203	7,015
Investments in joint ventures	573	537
Available-for-sale financial assets	54,827	43,489
Prepayments, deposits and other assets	7,049	6,694
Deferred income tax assets	4,739	667
Term deposits	9,034	9,033
	183,018	161,830
Current assets		
Inventories	216	226
Accounts receivable	8,810	7,148
Prepayments, deposits and other assets	11,908	12,723
Other financial assets	1,537	928
Term deposits	35,774	33,719
Restricted cash	125,490	85,816
Cash and cash equivalents	64,206	56,607
	247,941	197,167
Total assets	430,959	358,997

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In RMB millions (unless otherwise stated)

	Unaudited June 30, 2016	Unaudited March 31, 2016
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	14,619	13,670
Shares held for share award schemes	(2,425)	(2,257)
Other reserves	12,884	6,268
Retained earnings	116,192	109,185
	141,270	126,866
Non-controlling interests	2,851	2,243
Total equity	144,121	129,109
LIABILITIES		
Non-current liabilities		
Borrowings	33,030	18,802
Notes payable	34,585	36,886
Long-term payables	3,936	3,774
Deferred income tax liabilities	3,920	3,518
Deferred revenue	2,365	2,687
	77,836	65,667
Current liabilities		
Accounts payable	21,168	19,748
Other payables and accruals	138,759	98,546
Borrowings	10,080	12,373
Notes payable	7,282	3,869
Current income tax liabilities	3,555	2,423
Other tax liabilities	384	301
Deferred revenue	27,774	26,961
	209,002	164,221
Total liabilities	286,838	229,888
Total equity and liabilities	430,959	358,997

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

<i>RMB in millions, unless specified</i>	As reported	Adjustments					Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
Unaudited six months ended June 30, 2016							
Operating profit	27,727	1,495	74	(3,718)	96	2,497	28,171
Profit for the period	20,148	1,880	74	(4,037)	684	2,881	21,630
Profit attributable to equity holders	19,920	1,852	74	(4,033)	665	2,873	21,351
Operating margin	41%						42%
Net margin	30%						32%
Unaudited six months ended June 30, 2015							
Operating profit	19,408	1,202	50	(2,326)	106	1,275	19,715
Profit for the period	14,326	1,364	50	(2,238)	598	1,285	15,385
Profit attributable to equity holders	14,197	1,323	48	(2,238)	578	1,269	15,177
Operating margin	42%						43%
Net margin	31%						34%

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS (continued)

<i>RMB in million, unless specified</i>	As reported	Adjustments					Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
Unaudited three months ended June 30, 2016							
Operating profit	14,329	820	42	(2,990)	49	2,437	14,687
Profit for the period	10,880	1,014	42	(3,251)	328	2,483	11,496
Profit attributable to equity holders	10,737	995	42	(3,247)	317	2,475	11,319
<i>Operating margin</i>	40%						41%
<i>Net margin</i>	30%						32%
Unaudited three months ended March 31, 2016							
Operating profit	13,398	675	32	(728)	47	60	13,484
Profit for the period	9,268	866	32	(786)	356	398	10,134
Profit attributable to equity holders	9,183	857	32	(786)	348	398	10,032
<i>Operating margin</i>	42%						42%
<i>Net margin</i>	29%						32%
Unaudited three months ended June 30, 2015							
Operating profit	10,036	641	18	(1,487)	56	1,052	10,316
Profit for the period	7,396	720	18	(1,399)	300	1,057	8,092
Profit attributable to equity holders	7,314	699	17	(1,399)	287	1,057	7,975
<i>Operating margin</i>	43%						44%
<i>Net margin</i>	32%						35%

Note:

- (a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Including net (gains)/losses on deemed disposals, disposals of investee companies and businesses, and fair value changes on options we own in investee companies
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates, available-for-sale financial assets, and intangible assets arising from acquisitions