

For Immediate Release

TENCENT ANNOUNCES 2014 FIRST QUARTER RESULTS

Revenue Increased 36% YoY, Non-GAAP Net Income¹ Increased 29% YoY

Hong Kong, May 14, 2014 – Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 00700), a leading provider of comprehensive Internet services in China, today announced the unaudited consolidated results for the first quarter of 2014 ended March 31, 2014.

Highlights of the First Quarter of 2014:

- Total revenues were RMB18,400 million (USD2,991 million²), an increase of 8% over the fourth quarter of 2013 (“QoQ”) or an increase of 36% over the first quarter of 2013 (“YoY”).
- Operating profit was RMB7,790 million (USD1,266 million), an increase of 64% QoQ or an increase of 54% YoY. Operating margin increased to 42% from 28% last quarter. Non-GAAP³ operating profit was RMB6,477 million (USD1,053 million), an increase of 27% QoQ or an increase of 28% YoY. Non-GAAP operating margin increased to 35% from 30% last quarter.
- Profit attributable to equity holders of the Company for the quarter was RMB6,457 million (USD1,050 million), an increase of 65% QoQ or an increase of 60% YoY. Non-GAAP profit attributable to equity holders of the Company for the quarter was RMB5,194 million (USD844 million), an increase of 17% QoQ or an increase of 29% YoY.
- Basic earnings per share were RMB3.500. Diluted earnings per share were RMB3.449.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “During the first quarter of 2014, we substantially expanded our mobile ecosystem, providing new services to users, generating value for our business partners, and enhancing our own financial performance. Our smart phone games business achieved clear market leadership, allowing us to achieve 29% year-on-year growth in our non-GAAP net income while funding significant investments in various strategic initiatives. We transformed our eCommerce strategy through our combination with JD.com, China’s leading online retailer; deepened our mobile games pipeline via an investment in CJ Games; and broadened our O2O offerings through partnerships with category pioneers such as Dianping and Leju. We look forward to continuing to balance our strategic investments in O2O services, online payment and digital content with maintaining healthy financial returns, and to developing new services for users as China’s internet evolves.”

¹ This refers to the Non-GAAP net profit attributable to equity holders of Tencent

² Figures stated in USD are based on USD1 to RMB6.1521

³ Since the first quarter of 2014, we have included gains/losses on disposal of investees and businesses in the non-GAAP adjustments due to its increased significance. Previously, we only included gains/losses on deemed disposals of investees in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation. We changed this policy in order to present clearly to investors the one-time nature of the gains on disposals of investees and businesses we generated during the first quarter of 2014. See “Non-GAAP Financial Measures” section for more details on the reasons for presenting these measures

Financial Review for the First Quarter of 2014

- *VAS.* VAS revenues increased 21% QoQ to RMB14,413 million and represented 78% of our total revenues for the first quarter of 2014. Online games revenues increased 23% QoQ to RMB10,387 million. The growth was mainly driven by increased revenues from smart phone games integrated with Mobile QQ and Weixin, increased revenues from major PC titles which benefited from promotional activities and positive seasonality, as well as contributions from new PC game titles such as Blade & Soul. Social networks revenues increased 16% QoQ to RMB4,026 million. This mainly reflected an increase in platform revenues from smart phone games integrated with Mobile QQ and Weixin.

- *Online advertising.* Online advertising revenues decreased 21% QoQ to RMB1,177 million and represented 6% of our total revenues. This mainly reflected the impact of weaker seasonality on advertisers' spending around the Chinese New Year holidays, together with the transition in our eCommerce strategy which affected eCommerce-related advertising revenues.

- *eCommerce transactions.* eCommerce transactions revenues decreased 24% QoQ to RMB2,524 million and represented 14% of our total revenues. This was mainly driven by weaker seasonality in the eCommerce industry and the transition in our business strategy. Subsequent to the completion of the transaction with JD.com in March 2014, we no longer recognise fee income generated from physical goods transactions on our marketplaces.

Other Key Financial Information for the First Quarter of 2014

Share-based compensation was RMB568 million for the first quarter of 2014 as compared with RMB463 million for the previous quarter.

Capital expenditure was RMB1,138 million for the first quarter of 2014 as compared with RMB1,679 million for the previous quarter.

The Company didn't repurchase any shares on the Stock Exchange during the first quarter of 2014 and the previous quarter.

As at March 31, 2014, net cash position totaled RMB34,245 million which excluded borrowings of RMB9,035 million and long-term notes payable of RMB9,232 million.

As at March 31, 2014, the total number of shares of the Company in issue was 1.864 billion.

Strategic Highlights

In the first quarter of 2014, we conducted several transactions to complement our corporate strategy, including: (1) our transaction with JD.com for further developing our eCommerce business; (2) our investment in and partnership with CJ Games, which should bring more high quality mobile game experiences to our users; and (3) our investment in and partnership with Leju, to broaden our O2O offerings for real estate services.

On the financing side, we gained increased market recognition for our strong credit profile and raised new funds. In March 2014, we received an upgrade from Moody's on our issuer and senior unsecured debt ratings from Baa1 to A3. In April 2014, we established a USD5 billion global medium term note programme and completed the initial issuance of an aggregate principal amount of USD2.5 billion under the programme, which comprised USD500 million 3-year senior notes at a 2.000% coupon and USD2 billion 5-year senior notes at a 3.375% coupon. We are pleased that global institutional investors actively participated in the initial issuance, showing their recognition of our market leading position, history of stable growth and record of good corporate governance. With our healthy cash generation and substantial net cash balance, we are well-positioned to maintain our strong credit profile and we remain committed to our prudent financial management approach.

Divisional and Product Highlights

- Key platform statistics:
 - Monthly active Instant Messaging ("IM") user accounts were 848 million, an increase of 5% QoQ or an increase of 3% YoY.
 - Peak simultaneous online IM user accounts were 199 million, an increase of 11% QoQ or an increase of 15% YoY.
 - Combined MAU of Weixin and WeChat were 396 million, an increase of 12% QoQ or an increase of 87% YoY.
 - Monthly active Qzone user accounts were 644 million, an increase of 3% QoQ or an increase of 5% YoY.
 - Fee-based VAS registered subscriptions were 88 million, a decrease of 1% QoQ or a decrease of 16% YoY.

Key Platforms

Both QQ and Qzone experienced significant expansion in their mobile user bases and enhancement in user engagement on mobile. For QQ, aggregate MAU increased by 3% year-on-year to 848 million at the end of the first quarter of 2014. PCU benefited from improved user experience on smart phones and reached 200 million in April 2014. Mobile QQ enjoyed strong user growth as smart device MAU increased by 52% year-on-year to 490 million. For Qzone, aggregate MAU grew by 5% year-on-year to 644 million at the end of the first quarter of 2014. Qzone smart device MAU reached 467 million, representing a year-on-year increase of 44%.

Combined MAU of Weixin and WeChat increased by 87% year-on-year to 396 million at the end of the first quarter of 2014. During the quarter, we focused on building an ecosystem for Weixin through measures including: (1) integrating with Dianping and other services under Weixin Payment; (2) expanding the user base of Weixin Payment via a significant subsidy programme, notably for booking taxi rides; and (3) exploring mobile eCommerce with selected merchants via their Official Accounts. Internationally, we continued to drive user engagement for WeChat in selected countries.

As for our media platforms, Tencent News leveraged our strengths in mobile platforms to consolidate its position as the leading mobile news application in China. Tencent Video achieved a strong uplift in users and traffic during the first quarter of 2014, riding on enriched content,

platform integration and enhanced user experience. While online video market shares are somewhat driven by content rights and therefore volatile, we are pleased that iResearch reported Tencent Video reached first place in terms of PC monthly unique visitors among Chinese online video sites during March 2014, and comScore reported Tencent Video reached first place in terms of PC monthly video views during the same month.

VAS

In the first quarter of 2014, item-based sales on our open platforms registered solid year-on-year growth, as we expanded the portfolio of applications available to users and improved user experience. In aggregate, our VAS subscription services remained weak compared to the same period last year. However, QQ Membership, our longest-established subscription service, achieved modest year-on-year revenue growth during the quarter, boosted by integration of mobile with PC privileges, and we look forward to extending mobile privileges to some of our other subscription services.

Our online games business achieved a healthy year-on-year increase in revenues, with growth across PC client games and mobile games. For PC client games, while our major titles and international business expanded organically, new titles such as Blade & Soul made significant revenue contribution. For mobile games, we expanded our portfolio of smart phones games integrated with Mobile QQ and Weixin, and focused on leveraging the strengths of our platforms to increase monetisation. For the first quarter of 2014, the paying user base for these games more than doubled sequentially, and total revenues approximately tripled sequentially, to over RMB1.8 billion. Six of these games were ranked within the Top 10 Grossing Chart in China's iOS App Store at some point during the quarter. To enrich our portfolio of smart phone games, we added several international hit titles to our pipeline, such as Candy Crush Saga and Taming Monster.

Online Advertising

Our online advertising business benefited from revenue growth across the brand display and performance display categories. For brand display advertising, revenues from our online video platform grew robustly year-on-year with higher CPM and sell through rate, while traditional brand display advertising registered more moderate growth. Contributions from brand display advertising on our mobile news application expanded sequentially, albeit from a low base. For performance display advertising, our social platforms benefited from higher impression volume and cost per click, and achieved significant year-on-year revenue growth. During the quarter, we continued to expand our inventories for performance-based advertising and explore performance-based mobile advertising opportunities on our platforms.

eCommerce Transactions

Our eCommerce transaction business registered revenue growth on a year-on-year basis, against a backdrop of business strategy transition. Subsequent to the completion of the transaction with JD.com in March 2014, we no longer recognise fee income generated from physical goods transactions on our marketplaces. Looking ahead, we believe the revenues and costs, of our eCommerce transactions business may decline as we focus our resources on the partnership with JD.com.

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About Tencent

Tencent uses technology to enrich the lives of Internet users. Every day, hundreds of millions of people communicate, share experiences, consume information, seek entertainment, and shop online through our integrated platforms. Our diversified services include QQ, Weixin and WeChat for communications; Qzone for social networking; QQ Game Platform for online games; QQ.com for information; as well as our eCommerce services.

Our company was founded in Shenzhen in 1998 and went public on the Main Board of the Hong Kong Stock Exchange in 2004. The Company has been one of the 50 constituent stocks of the Hang Seng Index since June 10, 2008, under stock code 00700. We seek to evolve with the Internet by investing in innovation, providing a hospitable environment for our partners, and staying close to our users.

For more information, please visit www.tencent.com/ir

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Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Company's core operations by excluding certain non-cash items and certain impact of acquisitions.

Forward-Looking Statements

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

CONSOLIDATED INCOME STATEMENT

RMB in millions, unless specified

	Unaudited		Unaudited	
	1Q2014	4Q2013	1Q2014	1Q2013
Revenues	18,400	16,970	18,400	13,548
VAS	14,413	11,932	14,413	10,666
Online advertising	1,177	1,497	1,177	850
eCommerce transactions	2,524	3,324	2,524	1,914
Others	286	217	286	118
Cost of revenues	(7,800)	(8,198)	(7,800)	(5,954)
Gross profit	10,600	8,772	10,600	7,594
<i>Gross margin</i>	58%	52%	58%	56%
Interest income	375	377	375	277
Other gains, net	1,607	405	1,607	351
Selling and marketing expenses	(1,855)	(2,033)	(1,855)	(963)
General and administrative expenses	(2,937)	(2,770)	(2,937)	(2,196)
Operating profit	7,790	4,751	7,790	5,063
<i>Operating margin</i>	42%	28%	42%	37%
Finance (costs) /income, net	(238)	6	(238)	(82)
Share of profit/(losses) of associates	45	(14)	45	131
Share of losses of joint ventures	(1)	(4)	(1)	(12)
Profit before income tax	7,596	4,739	7,596	5,100
Income tax expense	(1,164)	(808)	(1,164)	(1,029)
Profit for the period	6,432	3,931	6,432	4,071
<i>Net margin</i>	35%	23%	35%	30%
Attributable to:				
Equity holders of the Company	6,457	3,911	6,457	4,044
Non-controlling interests	(25)	20	(25)	27
Non-GAAP profit attributable to equity holders of the Company	5,194	4,440	5,194	4,038
Earnings per share (GAAP)				
- basic (RMB)	3.500	2.125	3.500	2.204
- diluted (RMB)	3.449	2.092	3.449	2.166

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited		Unaudited	
	1Q2014	4Q2013	1Q2014	1Q2013
Profit for the period	6,432	3,931	6,432	4,071
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	8	48	8	-
Net losses from changes in fair value of available-for-sale financial assets	(37)	830	(37)	(606)
Currency translation differences	17	(50)	17	(12)
Total comprehensive income for the period	6,420	4,759	6,420	3,453
Attributable to:				
Equity holders of the Company	6,441	4,746	6,441	3,428
Non-controlling interests	(21)	13	(21)	25

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		
	1Q2014	4Q2013	1Q2013
EBITDA (a)	6,787	5,184	5,157
Adjusted EBITDA (a)	7,121	5,467	5,438
Adjusted EBITDA margin (b)	39%	32%	40%
Interest expense	112	105	98
Net cash (c)	34,245	36,218	32,731
Capital expenditures (d)	1,138	1,679	1,035

Note:

(a) EBITDA consists of operating profit less interest income, and plus other losses/(gains), net, 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, and restricted cash pledged for secured bank borrowings, minus borrowings and long-term notes payable.

(d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licences)..

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB millions (unless otherwise stated)

	Unaudited	Audited
	31 March 2014	31 December 2013
ASSETS		
Non-current assets		
Fixed assets	8,628	8,693
Construction in progress	2,214	2,041
Investment properties	272	-
Land use rights	806	871
Intangible assets	4,369	4,103
Interests in associates	24,928	12,170
Investment in joint ventures	19	9
Deferred income tax assets	352	431
Available-for-sale financial assets	14,278	12,515
Prepayments, deposits and other assets	1,291	1,296
Term deposits	8,415	11,420
	65,572	53,549
Current assets		
Inventories	939	1,384
Accounts receivable	3,103	2,955
Prepayments, deposits and other assets	6,778	5,365
Term deposits	17,574	19,623
Restricted cash	6,426	4,131
Cash and cash equivalents	26,523	20,228
	61,343	53,686
Total assets	126,915	107,235
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	-	-
Share premium	3,185	2,846
Shares held for share award schemes	(881)	(871)
Other reserves	3,530	3,746
Retained earnings	58,681	52,224
	64,515	57,945
Non-controlling interests	491	518
Total equity	65,006	58,463
LIABILITIES		
Non-current liabilities		
Borrowings	5,199	3,323
Long-term notes payable	9,232	9,141
Deferred income tax liabilities	1,490	1,441
Long-term payables	1,624	1,600
Deferred revenue	4,147	-
	21,692	15,505
Current liabilities		
Accounts payable	8,006	6,680
Other payables and accruals	12,127	10,246
Borrowings	3,836	2,589
Current income tax liabilities	725	1,318
Other tax liabilities	428	593
Deferred revenue	15,095	11,841
	40,217	33,267
Total liabilities	61,909	48,772
Total equity and liabilities	126,915	107,235

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

<i>RMB in millions, unless specified</i>	As reported	Adjustments						Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/Losses on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision(d)	Special dividend Income (e)	
Unaudited three months ended 31 March 2014								
Operating profit	7,790	334	234	(2,717)	16	820	-	6,477
<i>Operating margin</i>	42%							35%
Profit for the period	6,432	334	234	(2,669)	55	820	-	5,206
<i>Net margin</i>	35%							28%
Profit attributable to equity holders	6,457	328	219	(2,682)	52	820	-	5,194
EPS (RMB)								
- Basic	3.500							2.816
- Diluted	3.449							2.775
Unaudited three months ended 31 December 2013								
Operating profit	4,751	283	180	(242)	24	87	-	5,083
<i>Operating margin</i>	28%							30%
Profit for the period	3,931	283	180	(58)	66	87	-	4,489
<i>Net margin</i>	23%							26%
Profit attributable to equity holders	3,911	278	160	(58)	62	87	-	4,440
EPS (RMB)								
- Basic	2.125							2.413
- Diluted	2.092							2.375
Unaudited three months ended 31 March 2013								
Operating profit	5,063	281	117	-	38	-	(438)	5,061
<i>Operating margin</i>	37%							37%
Profit for the period	4,071	281	117	-	58	-	(438)	4,089
<i>Net margin</i>	30%							30%
Profit attributable to equity holders	4,044	278	104	-	50	-	(438)	4,038
EPS (RMB)								
- Basic	2.204							2.200
- Diluted	2.166							2.163

Note:

- (a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives*
- (b) (Gains)/losses, net on deemed disposals of investees and disposals of investees and businesses*
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax*
- (d) Impairment provision for associates and available-for-sale financial assets*
- (e) Special dividend income from Mail.ru*