

For Immediate Release

TENCENT ANNOUNCES 2015 SECOND QUARTER AND INTERIM RESULTS

Hong Kong, August 12, 2015 – Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 00700), a leading provider of Internet services in China, today announced the unaudited consolidated results for the second quarter (“2Q2015”) and the first half year of 2015 (“1H2015”) ended June 30, 2015.

1H2015 Key Highlights:

- Total revenues were RMB45,828 million (USD7,496 million¹), an increase of 20% over the first half year of 2014 (“YoY”).
- Operating profit was RMB19,408 million (USD3,175 million), an increase of 24% YoY. Operating margin increased to 42% from 41% last year.
- Profit for the period was RMB14,326 million (USD2,343 million), an increase of 17% YoY. Net margin decreased to 31% from 32% last year.
- Profit attributable to equity holders of the Company for the period was RMB14,197 million (USD2,322 million), an increase of 15% YoY.
- Basic earnings per share were RMB1.528. Diluted earnings per share were RMB1.512.
- On a non-GAAP² basis, excluding share-based compensation, deemed disposals/ disposals, amortization of intangible assets and impairment provision:
 - Operating profit was RMB19,715 million (USD3,225 million), an increase of 39% YoY. Operating margin increased to 43% from 37% last year.
 - Profit for the period was RMB15,385 million (USD2,517 million), an increase of 36% YoY. Net margin increased to 34% from 30% last year.
 - Profit attributable to equity holders of the Company for the period was RMB15,177 million (USD2,482 million), an increase of 35% YoY.
 - Basic earnings per share were RMB1.634. Diluted earnings per share were RMB1.616.

2Q2015 Key Highlights:

- Total revenues were RMB23,429 million (USD3,832 million), an increase of 19% over the second quarter of 2014 (“YoY”).
- Operating profit was RMB10,036 million (USD1,642 million), an increase of 28% YoY. Operating margin increased to 43% from 40% last year.
- Profit for the period was RMB7,396 million (USD1,210 million), an increase of 27% YoY. Net margin increased to 32% from 30% last year.
- Profit attributable to equity holders of the Company for the period was RMB7,314 million (USD1,196 million), an increase of 25% YoY.
- Basic earnings per share were RMB0.787. Diluted earnings per share were RMB0.778.
- On a non-GAAP basis, excluding share-based compensation, deemed disposals/ disposals, amortization of intangible assets and impairment provision:

¹ Figures stated in USD are based on USD1 to RMB6.1136.

² Since the second quarter of 2015, we have included relevant non-GAAP adjustments for our material associates in our non-GAAP adjustments. We adopted the new presentation in order to more clearly illustrate our non-GAAP financial measures, and to be more consistent with what we believe to be industry practice. Comparative figures have been adjusted to conform to the new presentation.

- Operating profit was RMB10,316 million (USD1,687 million), an increase of 34% YoY. Operating margin increased to 44% from 39% last year.
- Profit for the period was RMB8,092 million (USD1,324 million), an increase of 33% YoY. Net margin increased to 35% from 31% last year.
- Profit attributable to equity holders of the Company for the period was RMB7,975 million (USD1,304 million), an increase of 32% YoY.
- Basic earnings per share were RMB0.858. Diluted earnings per share were RMB0.849.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “During the second quarter of 2015, we sustained our leadership across our social, games and media platforms, while achieving another quarter of solid financial results. Operationally, we made notable progress across our portfolio of mobile utilities, with our mobile security solution, browser and app store moving into industry leadership positions. Strategically, we cultivated rapid growth of our mobile payment solutions, and built up a growing subscriber base for our premium reading, music and video services. We also reported rapid growth in online advertising revenue, benefiting from expanded social performance advertising and video advertising. We look forward to continuing to deepen our relationship with strategic partners in various verticals and to develop new services that bring the best experiences to our users.”

2Q2015 Financial Review

Value Added Services (“VAS”)¹. Revenues from our VAS business increased by 17% YoY to RMB18,428 million. Online games revenues grew by 17% to RMB12,970 million. The increase primarily reflected higher monetisation from core gamers on PC, growth in revenues from smart phone games, and, to a lesser extent, the impact of the adoption of gross revenue recognition. Social networks revenues increased by 18% YoY to RMB5,458 million. The increase was mainly driven by growth in subscription revenues as a result of improved mobile privileges and digital content. If gross revenue recognition for smart phone games was adopted for the second quarter of 2014, revenues from our VAS business would have increased by 12% YoY, of which online games revenues would have increased by 11% YoY and social networks revenues would have increased by 14% YoY for the second quarter of 2015.

Online advertising. Revenues from our online advertising business increased by 97% YoY to RMB4,073 million. Brand display advertising revenues increased by 47% YoY to RMB2,016 million, reflecting higher contributions from video advertising driven by more video views. Performance-based advertising increased by 196% YoY to RMB2,057 million, primarily due to performance-based social advertising on mobile devices.

Other Key Financial Information for 2Q2015

Share-based compensation was RMB659 million, up 12% YoY.

EBITDA was RMB10,258 million, up 28% YoY. Adjusted EBITDA was RMB10,899 million, up 29% YoY.

Capital expenditure was RMB2,841 million, up 210% YoY.

Free cashflow was RMB5,417 million, down 14% YoY.

¹We recognise revenues from smart phone games we publish on an exclusive basis on a gross basis, from the fourth quarter of 2014 onward, primarily to reflect changes in our co-operation models that qualify us the principal, rather than agent, for certain licensed titles. Correspondingly, we record revenue sharing with third-party developers and channel costs of these titles in costs of revenues, instead of treating them as contra-revenue items. Net versus gross revenue recognition does not impact the Company's profits.

As at 30 June 2015, the Company had net cash of RMB21,663 million. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB90 billion as at 30 June 2015.

Strategic Highlights

At the start of 2015, we outlined several strategic priorities through which we aim to cultivate a vibrant mobile ecosystem, bringing our own and our partners' products and services to consumers in China. During the second quarter of 2015, we sought to execute against these strategic priorities via:

- Driving transaction volumes of our payment services by leveraging a wider base of users who have bundled their bank cards with Mobile QQ Wallet or Weixin Payment, the increasing popularity of person-to-person transactions on mobile devices, and the growing number of partner companies adopting our payment solutions;
- Growing our performance-based advertising business by expanding our inventory, enlarging our advertiser base, and implementing an internal organizational change to optimise our performance-based advertising business process. By sharing our advertising revenues with content developers, such as certain Weixin Official Accounts publishers, we encourage better content and thus enhance user engagement in our ecosystem;
- Enriching our digital content subscription services, such as online reading, video and music services, with new content and features, while extending our partnerships with key content providers; and
- Deepening our relationship with strategic partners in various verticals. For example, we further invested in 58.com, a leading online classified listings platform in China.

In addition, we continue to strengthen the infrastructure support to our "Connection" strategy. For example, we leveraged our technology strengths and the popularity of our core communications and social platforms to reinforce our position as one of China's leading providers of mobile utility services, such as our mobile security solution, mobile browser, and mobile application store. We believe our products have reached either a first place or a strong second place market position in China within each of these mobile utility categories.

In terms of balance sheet management, in April 2015 we upsized the limit on the aggregate principal amount of our Global Medium Term Note Programme by USD5 billion to USD10 billion. In June 2015 we received a long-term corporate credit rating of A+ from Fitch Ratings. In July 2015 we issued USD100 million senior notes under the Programme for general corporate purposes.

Business Review and Outlook

Divisional and Product Highlights

Operating information

- Monthly active user accounts (“MAU”) of QQ was 843 million, an increase of 2% YoY.
- Smart device MAU of QQ was 627 million, an increase of 20% YoY.
- Peak concurrent user accounts (“PCU”) of QQ was 233 million, an increase of 13% YoY.
- Combined MAU of Weixin and WeChat were 600 million, an increase of 37% YoY.
- MAU of Qzone was 659 million, an increase of 2% YoY.
- Smart device MAU of Qzone was 574 million, an increase of 15% YoY.
- Fee-based VAS registered subscriptions were 84 million, a decrease of 4% YoY.

Key Platforms

- For QQ, smart device MAU increased by 20% YoY to 627 million at the end of the quarter, while overall PCU increased by 13% YoY to 233 million. Mobile QQ usage benefited from enhanced popularity of features such as interest tribes and video communication, as well as from integration with products and services provided by our partners from various verticals, such as eCommerce and O2O services.
- For Qzone, smart device MAU increased by 15% YoY to 574 million at the end of the quarter. User activity benefited from enhanced features in areas such as smart album storyline and photo editing.
- For Weixin and WeChat together, MAU reached 600 million at the end of the quarter, representing YoY growth of 37%. For Weixin, we enhanced user experience by promoting original content and enabling users to reward content producers on Official Accounts. We also cooperated with local governments to provide users in major cities with access to municipal services. For WeChat, we continued to drive user engagement in selected overseas markets, especially emerging Asian markets.

Our online media platforms extended their leadership in China. Tencent News leveraged premium content and plug-ins to Mobile QQ and Weixin to consolidate its position as the leading mobile news platform in China. Tencent Video solidified its position as the broadest-reach mobile video platform in China, thanks to enriched content and enhanced user experience.

VAS

In the second quarter of 2015, our social networks business achieved 18% YoY revenue growth as we improved mobile privileges and enriched digital content subscription services. We will continue to add premium content for our reading, music and video subscription services.

In online games, we extended our leadership in China.

- For PC client games, the quarter registered healthy YoY revenue growth thanks to higher monetisation from core gamers and enhanced user engagement, supported by promotional activities such as expansion packs promotions.
- For smart phone games, we achieved 11% YoY revenue growth on a gross-to-gross basis, with approximately RMB4.5 billion revenue in the second quarter. We retained leadership in multiple genres, such as playing card, shooting, running and fighter plane games.

Looking forward, we intend to launch highly anticipated PC game titles such as Monster Hunter Online and Moonlight Blade, and to extend our leading PC game IPs, such as DnF and FIFA Online 3, into mobile game titles. We will also optimise and enhance our resource allocation to smart phone games, focusing on key titles that we believe can create or re-define important mobile game genres, such as WeFire contributing to the mobile shooting genre.

In addition, we are advancing our sports game portfolio via cross-promotions tied with global sport events. For example, we will promote NBA2K Online alongside the broadcast of the new NBA season on Tencent Video to attract more gamers and enhance user interaction. We are also seeking to reinforce users' loyalty via various promotional activities, such as eSports, live broadcasts, online forums, and offline events for gamers.

Online Advertising

In the second quarter of 2015, our online advertising business achieved rapid YoY revenue growth, mainly reflecting more video views and advertisers on our video inventory, and increased performance-based advertising on mobile social inventory. During the quarter, video advertising revenues more than doubled YoY, of which more than 50% was generated on mobile platforms. Looking forward, we will continue to invest in premium content, such as online video streams of NBA games and the Voice of China 4, as well as expanding our mobile advertising inventory and enhancing our performance-based advertising service capabilities.

For other detailed disclosure, please refer to our website www.tencent.com/ir.

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About Tencent

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

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

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Non-GAAP Financial Measures

To supplement the consolidated results of the Company prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin, 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 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 M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Company'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	
	2Q2015	2Q2014	2Q2015	1Q2015
Revenues	23,429	19,746	23,429	22,399
VAS	18,428	15,713	18,428	18,626
Online advertising	4,073	2,064	4,073	2,724
Others ¹	928	1,969	928	1,049
Cost of revenues	(8,991)	(7,574)	(8,991)	(8,965)
Gross profit	14,438	12,172	14,438	13,434
<i>Gross margin</i>	62%	62%	62%	60%
Interest income	598	406	598	521
Other gains, net	612	691	612	411
Selling and marketing expenses	(1,601)	(1,973)	(1,601)	(1,326)
General and administrative expenses	(4,011)	(3,453)	(4,011)	(3,668)
Operating profit	10,036	7,843	10,036	9,372
<i>Operating margin</i>	43%	40%	43%	42%
Finance costs, net	(341)	(354)	(341)	(433)
Share of (losses)/profits of associates and joint ventures	(452)	23	(452)	(310)
Profit before income tax	9,243	7,512	9,243	8,629
Income tax expense	(1,847)	(1,686)	(1,847)	(1,699)
Profit for the period	7,396	5,826	7,396	6,930
<i>Net margin</i>	32%	30%	32%	31%
Attributable to:				
Equity holders of the Company	7,314	5,836	7,314	6,883
Non-controlling interests	82	(10)	82	47
Non-GAAP profit attributable to equity holders of the Company	7,975	6,061	7,975	7,202
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	0.787	0.632	0.787	0.741
- diluted	0.778	0.623	0.778	0.733

¹ In light of the reduction in size of our eCommerce business, we include the eCommerce in the "Others" business segment in our financial statements from the first quarter of 2015 onwards. Comparative figures have been reclassified to conform to the new presentation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited		Unaudited	
	2Q2015	2Q2014	2Q2015	1Q2015
Profit for the period	7,396	5,826	7,396	6,930
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	(168)	5	(168)	70
Net gains from changes in fair value of available-for-sale financial assets	4,795	730	4,795	1,764
Currency translation differences	(367)	(11)	(367)	187
Total comprehensive income for the period	11,656	6,550	11,656	8,951
Attributable to:				
Equity holders of the Company	11,594	6,556	11,594	8,898
Non-controlling interests	62	(6)	62	53

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		
	2Q2015	2Q2014	1Q2015
EBITDA (a)	10,258	8,018	9,945
Adjusted EBITDA (a)	10,899	8,445	10,506
Adjusted EBITDA margin (b)	47%	43%	47%
Interest expense	399	224	329
Net cash (c)	21,663	22,485	25,319
Capital expenditures (d)	2,841	917	1,332

Note:

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB millions (unless otherwise stated)

	Unaudited 30 June 2015	Unaudited 31 March 2015
ASSETS		
Non-current assets		
Fixed assets	8,528	7,774
Construction in progress	4,005	4,402
Investment properties	265	266
Land use rights	2,286	748
Intangible assets	10,285	10,441
Investments in associates	53,446	53,161
Investments in redeemable preference shares of associates	4,776	4,276
Investments in joint ventures	566	563
Deferred income tax assets	621	432
Available-for-sale financial assets	26,370	17,171
Prepayments, deposits and other assets	2,115	996
Term deposits	3,619	4,121
	116,882	104,351
Current assets		
Inventories	238	279
Accounts receivable	5,536	5,195
Prepayments, deposits and other assets	9,544	9,153
Term deposits	17,329	14,147
Restricted cash	20,262	13,832
Cash and cash equivalents	48,271	55,583
	101,180	98,189
Total assets	218,062	202,540

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In RMB millions (unless otherwise stated)

	Unaudited 30 June 2015	Unaudited 31 March 2015
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	-	-
Share premium	6,155	5,599
Shares held for share award schemes	(1,405)	(1,363)
Other reserves	7,238	3,070
Retained earnings	85,614	80,940
	97,602	88,246
Non-controlling interests	2,622	2,424
Total equity	100,224	90,670
LIABILITIES		
Non-current liabilities		
Borrowings	4,280	5,835
Notes payable	37,162	37,322
Long-term payables	1,881	2,644
Deferred income tax liabilities	3,017	2,739
Deferred revenue	3,000	3,256
	49,340	51,796
Current liabilities		
Accounts payable	10,311	10,061
Other payables and accruals	32,085	23,125
Borrowings	4,280	3,534
Notes payable	1,834	1,841
Current income tax liabilities	1,584	1,546
Other tax liabilities	374	785
Deferred revenue	18,030	19,182
	68,498	60,074
Total liabilities	117,838	111,870
Total equity and liabilities	218,062	202,540
Net current assets	32,682	38,115
Total assets less current liabilities	149,564	142,466

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

<i>RMB in millions, unless specified</i>	As reported	Adjustments				Impairment provision (d)	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)		
Unaudited three months ended 30 June 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
Operating margin	43%						44%
Net margin	32%						35%
Unaudited three months ended 31 March 2015							
Operating profit	9,372	561	32	(839)	50	223	9,399
Profit for the period	6,930	644	32	(839)	298	228	7,293
Profit attributable to equity holders	6,883	624	31	(839)	291	212	7,202
Operating margin	42%						42%
Net margin	31%						33%
Unaudited three months ended 30 June 2014							
Operating profit	7,843	427	160	(1,082)	15	325	7,688
Profit for the period	5,826	547	160	(1,052)	271	325	6,077
Profit attributable to equity holders	5,836	538	145	(1,052)	269	325	6,061
Operating margin	40%						39%
Net margin	30%						31%

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 Company, and other incentives
- (b) (Gains)/ losses, net on deemed disposals of investee companies and disposals of investee companies and businesses
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates, available-for-sale financial assets, and intangible assets arising from acquisitions