

For Immediate Release

TENCENT ANNOUNCES 2016 FIRST QUARTER RESULTS

Hong Kong, May 18, 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 first quarter of 2016 ended March 31, 2016 (“1Q2016”).

Key Highlights:

- Total revenues were RMB31,995 million (USD4,952 million¹), an increase of 43% over the first quarter of 2015 (“YoY”).
- Operating profit was RMB13,398 million (USD2,074 million), an increase of 43% YoY. Operating margin was 42%, the same as the first quarter of 2015.
- Profit for the period was RMB9,268 million (USD1,434 million), an increase of 34% YoY. Net margin decreased to 29% from 31% last year.
- Profit attributable to equity holders of the Company for the period was RMB9,183 million (USD1,421 million), an increase of 33% YoY.
- Basic earnings per share were RMB0.981. Diluted earnings per share were RMB0.970.
- On a non-GAAP basis², excluding share-based compensation, net (gains)/losses from investee companies, amortization of intangible assets and impairment provision:
 - Operating profit was RMB13,484 million (USD2,087 million), an increase of 43% YoY. Operating margin was 42%, the same as the first quarter of 2015.
 - Profit for the period was RMB10,134 million (USD1,568 million), an increase of 39% YoY. Net margin decreased to 32% from 33% last year.
 - Profit attributable to equity holders of the Company for the period was RMB10,032 million (USD1,553 million), an increase of 39% YoY.
 - Basic earnings per share were RMB1.072. Diluted earnings per share were RMB1.059.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “We delivered a strong set of financial results for the first quarter of 2016, and made progress in further building up our social, games and media platforms. Our smart phone games achieved healthy user and revenue growth, thanks to our expanding portfolio of popular titles, operational expertise, and extensive user reach. A rich catalogue of premium content and an improving copyright protection environment in China facilitated robust growth in our digital content businesses. For advertising, we are refining our targeting tools and creating new ad formats to enhance returns for advertisers, thereby putting us in a solid position to capture the sizable market opportunity over the longer run. Our payment service adoption and payment volume saw healthy growth as we connect our users to an expanding range of online and offline services.”

¹ Figures stated in USD are based on USD1 to RMB6.4612.

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.

1Q2016 Financial Review

Value Added Services (“VAS”). Revenues from our VAS business increased by 34% to RMB24,964 million for the first quarter of 2016 on a YoY basis. Online games revenues grew by 28% YoY to RMB17,085 million. The increase mainly reflected contributions from new smart phone games such as CrossFire Mobile, Honor of Kings, The Legend of MIR 2 and Naruto Mobile, as well as revenue growth from PC client games, mainly driven by our key titles and newly launched games in the second half of 2015. Social networks revenues increased by 48% YoY to RMB7,879 million. The increase primarily reflected higher subscription revenues from digital content subscription services and QQ Membership, as well as revenue growth from virtual item sales.

Online advertising. Revenues from our online advertising business increased by 73% to RMB4,701 million for the first quarter of 2016 on a YoY basis. Performance-based advertising revenues increased by 90% YoY to RMB2,532 million, primarily driven by growth in advertising revenues from Mobile Qzone, Tencent News, Weixin Moments and Weixin Official Accounts. Brand display advertising revenues grew by 56% YoY to RMB2,169 million, mainly reflecting revenue growth from Tencent News and Tencent Video.

Other Key Financial Information for 1Q2016

Share-based compensation was RMB707 million, up 19% YoY.

EBITDA was RMB14,329 million, up 44% YoY. Adjusted EBITDA was RMB15,004 million, up 43% YoY.

Capital expenditure was RMB4,105 million, up 208% YoY.

Free cash flow was RMB13,927 million, up 67% YoY.

As at March 31, 2016, Net cash position totaled RMB27,429 million, up 8% YoY. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB82 billion as at March 31, 2016.

Business Review and Outlook

Operating information

- Monthly active user accounts (“MAU”) of QQ was 877 million, an increase of 5% YoY.
- Smart device MAU of QQ was 658 million, an increase of 9% YoY.
- Peak concurrent user accounts (“PCU”) of QQ (for the quarter) was 260 million, an increase of 14% YoY.
- Combined MAU of Weixin and WeChat were 762 million, an increase of 39% YoY.
- MAU of Qzone was 648 million, a decrease of 3% YoY.
- Smart device MAU of Qzone was 588 million, an increase of 4% YoY.
- Fee-based VAS registered subscriptions were 108 million, an increase of 33% YoY.

Key Platforms

- For QQ, smart device MAU increased by 9% YoY to 658 million at the end of the quarter, while overall PCU increased by 14% YoY to 260 million. Mobile QQ usage benefited from enhanced

features in areas such as video messaging and virtual gift exchanging. User activity in Interest Tribes, our interest-based communities embedded in QQ, benefited from enriched content discovery features, such as targeted feed-displays.

- For Qzone, smart device MAU increased by 4% YoY to 588 million at the end of the quarter. User activity benefited from enhanced features in areas such as photo editing and video viewing.
- For Weixin and WeChat together, MAU reached 762 million at the end of the quarter, representing YoY growth of 39%. User metrics growth benefited from the popularity of red envelope activities during the Lunar New Year holidays in early 2016, and increased original content published on Official Accounts. The volume of commercial payments via Weixin Pay, such as payments for eCommerce and O2O service transactions, grew significantly, accompanying an increasing volume of C2C payment transactions.

In April 2016, we launched Enterprise Weixin, a stand-alone application which is tailored to communication scenarios at work and incorporates mobile office solutions such as calendar and company notice management.

VAS

In the first quarter of 2016, our social networks business sustained healthy revenue growth as we improved virtual item sales, added premium content to our digital content subscription services, and enhanced mobile privileges for QQ Membership subscription services.

In online games, we extended our market leadership in China.

- For PC client games, we saw increased contributions from key titles and new games launched in the second half of 2015, supported by promotional initiatives such as expansion packs and eSports tournaments.
- For smart phone games, we cultivated eSports user activity via leveraging QQ, Weixin, Tencent Video and Tencent News, and expanded our mid-core game portfolio.

Looking ahead, we aim to strengthen our smart phone game portfolio via leveraging proven PC game IPs, such as Legend of the Swordman and Zhengtu, and via launching new genres, such as fishing games.

Online Advertising

Our online advertising business sustained rapid YoY growth in the first quarter of 2016, mainly driven by an enlarged advertiser base, higher traffic on our mobile platforms, and improved monetisation of advertising inventories. Approximately 80% of our total advertising revenues was generated on mobile platforms during the quarter.

Under our new exclusive partnership with NBA, online video views of NBA games grew significantly in China and became increasingly attractive to large-budget advertisers. We introduced self-service advertising tools to

monetise Weixin Moments traffic generated in low-tier cities, catering particularly to long-tail advertisers.

Looking forward, we will continue growing and monetising advertising inventories on our media and social platforms. While we are optimistic about the long-term growth potential of our online advertising business, our brand advertising business could face near-term challenges due to the uncertainties of macroeconomic environment in China.

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	
	1Q2016	1Q2015	1Q2016	4Q2015
Revenues	31,995	22,399	31,995	30,441
VAS	24,964	18,626	24,964	23,068
Online advertising	4,701	2,724	4,701	5,733
Others	2,330	1,049	2,330	1,640
Cost of revenues	(13,406)	(8,965)	(13,406)	(12,661)
Gross profit	18,589	13,434	18,589	17,780
<i>Gross margin</i>	<i>58%</i>	<i>60%</i>	<i>58%</i>	<i>58%</i>
Interest income	703	521	703	649
Other gains, net	506	411	506	249
Selling and marketing expenses	(2,032)	(1,326)	(2,032)	(3,024)
General and administrative expenses	(4,368)	(3,668)	(4,368)	(4,766)
Operating profit	13,398	9,372	13,398	10,888
<i>Operating margin</i>	<i>42%</i>	<i>42%</i>	<i>42%</i>	<i>36%</i>
Finance costs, net	(491)	(433)	(491)	(363)
Share of losses of associates and joint ventures	(1,089)	(310)	(1,089)	(1,329)
Profit before income tax	11,818	8,629	11,818	9,196
Income tax expense	(2,550)	(1,699)	(2,550)	(1,998)
Profit for the period	9,268	6,930	9,268	7,198
<i>Net margin</i>	<i>29%</i>	<i>31%</i>	<i>29%</i>	<i>24%</i>
Attributable to:				
Equity holders of the Company	9,183	6,883	9,183	7,164
Non-controlling interests	85	47	85	34
Non-GAAP profit attributable to equity holders of the Company*	10,032	7,202	10,032	8,953
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	0.981	0.741	0.981	0.769
- diluted	0.970	0.733	0.970	0.759

* 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited	
	1Q2016	1Q2015
Profit for the period	9,268	6,930
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	8	70
Net (losses)/gains from changes in fair value of available-for-sale financial assets	(1,653)	1,764
Currency translation differences	(214)	187
Other fair value losses	(139)	-
<i>Items that may not be subsequently reclassified to profit or loss</i>		
Other fair value losses	(262)	-
Total comprehensive income for the period	7,008	8,951
Attributable to:		
Equity holders of the Company	6,920	8,898
Non-controlling interests	88	53

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		
	1Q2016	4Q2015	1Q2015
EBITDA (a)	14,329	12,040	9,945
Adjusted EBITDA (a)	15,004	12,831	10,506
Adjusted EBITDA margin (b)	47%	42%	47%
Interest expense	477	409	329
Net cash (c)	27,429	19,114	25,319
Capital expenditures (d)	4,105	1,883	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 licenses).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB in millions (unless otherwise stated)

	Unaudited	Audited
	31 March 2016	31 December 2015
ASSETS		
Non-current assets		
Fixed assets	10,301	9,973
Construction in progress	5,176	4,248
Investment properties	291	292
Land use rights	4,087	2,293
Intangible assets	13,793	13,439
Investments in associates	60,747	60,171
Investments in redeemable preference shares of associates	7,015	6,230
Investments in joint ventures	537	544
Deferred income tax assets	667	757
Available-for-sale financial assets	43,489	44,339
Prepayments, deposits and other assets	6,694	5,480
Term deposits	9,033	3,674
	161,830	151,440
Current assets		
Inventories	226	222
Accounts receivable	7,148	7,061
Prepayments, deposits and other assets	12,723	11,397
Other financial assets	928	1,198
Term deposits	33,719	37,331
Restricted cash	85,816	54,731
Cash and cash equivalents	56,607	43,438
	197,167	155,378
Total assets	358,997	306,818

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in millions (unless otherwise stated)

	Unaudited	Audited
	31 March 2016	31 December 2015
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	-	-
Share premium	13,670	12,167
Shares held for share award schemes	(2,257)	(1,817)
Other reserves	6,268	9,673
Retained earnings	109,185	100,012
	126,866	120,035
Non-controlling interests	2,243	2,065
Total equity	129,109	122,100
LIABILITIES		
Non-current liabilities		
Borrowings	18,802	12,922
Notes payable	36,886	37,092
Long-term payables	3,774	3,626
Deferred income tax liabilities	3,518	3,668
Deferred revenue	2,687	3,004
	65,667	60,312
Current liabilities		
Accounts payable	19,748	15,700
Other payables and accruals	98,546	70,199
Borrowings	12,373	11,429
Notes payable	3,869	3,886
Current income tax liabilities	2,423	1,608
Other tax liabilities	301	462
Deferred revenue	26,961	21,122
	164,221	124,406
Total liabilities	229,888	184,718
Total equity and liabilities	358,997	306,818

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)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)		
Unaudited three months ended 31 March 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
Operating margin	42%						42%
Net margin	29%						32%
Unaudited three months ended 31 December 2015							
Operating profit	10,888	791	18	(929)	46	719	11,533
Profit for the period	7,198	959	17	(995)	313	1,525	9,017
Profit attributable to equity holders	7,164	939	16	(995)	304	1,525	8,953
Operating margin	36%						38%
Net margin	24%						30%
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%

* 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.

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