

For Immediate Release

TENCENT ANNOUNCES 2017 FIRST QUARTER RESULTS

Hong Kong, May 17, 2017 – Tencent Holdings Limited (“Tencent” or the “Company”, 00700.hk), a leading provider of Internet value added services in China, today announced the unaudited consolidated results for the first quarter of 2017 ended March 31, 2017 (“1Q2017”).

Key Highlights:

- Total revenues were RMB49,552 million (USD7,182 million¹), an increase of 55% over the first quarter of 2016 (“YoY”).
- Operating profit was RMB19,272 million (USD2,793 million), an increase of 44% YoY. Operating margin decreased to 39% from 42% last year.
- Profit for the period was RMB14,548 million (USD2,109 million), an increase of 57% YoY. Net margin was 29%, the same as the first quarter of 2016.
- Profit attributable to equity holders of the Company for the period was RMB14,476 million (USD2,098 million), an increase of 58% YoY.
- Basic earnings per share were RMB1.540. Diluted earnings per share were RMB1.522.
- On a non-GAAP basis, excluding share-based compensation, net (gains)/losses from investee companies, amortisation of intangible assets and impairment provision:
 - Operating profit was RMB18,520 million (USD2,684 million), an increase of 37% YoY. Operating margin decreased to 37% from 42% last year.
 - Profit for the period was RMB14,372 million (USD2,083 million), an increase of 42% YoY. Net margin decreased to 29% from 32% last year.
 - Profit attributable to equity holders of the Company for the period was RMB14,211 million (USD2,060 million), an increase of 42% YoY.
 - Basic earnings per share were RMB1.512. Diluted earnings per share were RMB1.494.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “We delivered a strong set of operating and financial results for the first quarter of 2017. Financially, our smart phone games, payment related services, digital content subscriptions, PC games and social advertising businesses all contributed to our broad-based revenue growth. Operationally, our entertainment services benefited from the Chinese New Year holiday, and several of our products achieved notable growth during the quarter. These include our video platform which featured popular original content, as well as newer products such as our karaoke app WeSing, our photo editing app Pitu, and our mobile games such as Honour of Kings. We will continue to invest in new technologies, quality content and innovative products to bring increasingly better experiences to our users.

1Q2017 Financial Review

Value Added Services (“VAS”). Revenues increased by 41% to RMB35,108 million for 1Q2017 on a YoY basis.

¹ Figures stated in USD are based on USD1 to RMB6.8993.

Online games revenues grew by 34% YoY to RMB22,811 million. The increase mainly reflected higher revenues from both smart phone games (such as Honour of Kings and Dragon Nest Mobile) and PC client games (such as LoL and DnF). Social networks revenues grew by 56% YoY to RMB12,297 million. The increase primarily reflected revenue growth from digital content services, including digital music, video, and literature services, and from virtual item sales.

Online advertising. Revenues increased by 47% to RMB6,888 million for 1Q2017 on a YoY basis. In light of the increasingly blurred boundaries between performance-based advertising and brand display advertising, and advertisers increasingly purchasing performance ads on traditionally brand-oriented inventories, we have reclassified online advertising revenues by advertising properties, rather than advertising pricing models.

Media advertising revenues (mainly including those generated from our news, video and music properties) increased by 20% YoY to RMB2,509 million, primarily reflecting growth in revenues from our mobile media platforms, Tencent News and Tencent Video. Social and others advertising revenues (mainly including those generated from our social properties, app store, browser and ad networks) grew by 67% YoY to RMB4,379 million, mainly driven by higher advertising revenues derived from Weixin Moments, Weixin Official Accounts, our app store, and our mobile browser.

Others. Revenues increased by 224% to RMB7,556 million for 1Q2017 on a YoY basis. The increase was primarily driven by higher revenues from our payment related and cloud services.

Other Key Financial Information for 1Q2017

Share-based compensation was RMB1,339 million, up 89% YoY.

EBITDA was RMB19,995 million, up 40% YoY. Adjusted EBITDA was RMB21,300 million, up 42% YoY.

Capital expenditure was RMB2,108 million, down 49% YoY.

Free cash flow was RMB24,229 million, up 74% YoY.

As at March 31, 2017, Net cash position totaled RMB27,572 million. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB112 billion as at March 31, 2017.

Business Review and Outlook

Operating Information

- Monthly active user accounts (“MAU”) of QQ was 861 million, a decrease of 2% YoY.
- Smart device MAU of QQ² was 678 million, the same as last year.
- Peak concurrent user accounts (“PCU”) of QQ (for the quarter) was 266 million, an increase of 3% YoY.
- Combined MAU of Weixin and WeChat were 938 million, an increase of 23% YoY.
- MAU of Qzone was 632 million, a decrease of 3% YoY.
- Smart device MAU of Qzone³ was 605 million, the same as last year.
- Fee-based VAS registered subscriptions were 119 million, an increase of 10% YoY.

Social and Communication

- **QQ:** Smart device MAU was broadly stable YoY, while PCU including PC and mobile increased by 3% to 266 million. As a new generation of users come online, we seek to address their needs by sharpening QQ’s focus on young people. For example, we introduced Kandian, which recommends personalised content to young QQ users based on their interest graphs and big data analytics. We also enriched our QQ Smart Campus service, providing tools to support the administration of college student affairs, facilitate school-student communication, pay tuition fees and host job listings.
- **Qzone:** Smart device MAU was flat YoY. We continued to increase user engagement through refining functionalities in live broadcasting and search.
- **Weixin and WeChat:** MAU reached 938 million, representing YoY growth of 23%. We have been nurturing the adoption of *Mini Programs* by introducing more developer-friendly features such as DIY scannable code, embedded links in Weixin Official Accounts, and *Mini Programs* discoverable based on location. We launched the Weixin Index which enables users to analyse the popularity of keywords within Weixin Official Accounts.

Online Games

For PC client games, we achieved approximately RMB14.1 billion revenue and generated 24% YoY revenue growth, with increased contributions from key titles such as LoL, DnF, and FIFA Online 3, supported by seasonal expansion packs, promotional activities and eSports events. Paying users ratio increased on a YoY basis.

² We have adjusted historical smart device MAU figure for QQ so as to include users who only participate in certain activities inside the QQ application, such as Interest Tribe or, more recently, listening to online music and reading online literature. These changes had a relatively immaterial impact on the MAU count and growth rates, but we feel that they better reflect the broadening range of user activities within QQ.

³ We have adjusted historical smart device MAU figure for Qzone so as to better reflect user behaviour on Qzone via smart devices.

For smart phone games, we achieved approximately RMB12.9 billion revenue⁴, representing 57% YoY growth, driven by existing and new games such as Honour of Kings, CF Mobile and Dragon Nest Mobile.

Digital Content

Digital content revenue recorded rapid growth during the quarter, as users were increasingly willing to pay for content, and as the copyright environment continued to improve.

Our video subscriptions revenue more than tripled YoY, driven by in-house productions such as Candle in the Tomb, and licensed content such as Country Romance 9.

For the QQ Music streaming service, we upgraded the listening and sharing experience with enhanced features in user-generated playlists, search and our music video player. WeSing, our karaoke app, saw significant growth in active users and paying users, benefitting from upgraded features such as singing contests with friends and the addition of higher-grossing virtual gifting items.

For online literature, we maintained our position as the leading online content library and publishing platform, with healthy growth in the number of daily paying readers.

Online Advertising

During 1Q2017, our advertising business delivered robust expansion, with Tencent Video and Tencent News being the key contributors to YoY growth for our media advertising business; and Weixin properties for our social and others advertising business.

Our news services maintained industry leadership in terms of DAU, and our video business ranked first in China in terms of mobile video views.

We upgraded our neighbourhood LBS advertising in Weixin Moments, enabling advertisers to more precisely target customers within their vicinity, which is particularly attractive to advertisers such as wedding suppliers and home decoration vendors.

Others

We generated 224% YoY revenue growth, driven mainly by payment related services and cloud services.

⁴ 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. Our social products Weixin and QQ link our users to a rich digital content catalogue including games, video, music and books. Our proprietary targeting technology helps advertisers reach out to hundreds of millions of consumers in China. Our infrastructure services including payment, security, cloud and artificial intelligence create differentiated offerings and support our partners' business growth. Tencent invests heavily in people and innovation, enabling us to evolve with the Internet.

Tencent was founded in Shenzhen, China, in 1998. Shares of Tencent (00700.hk) are traded on the Main Board of the Stock Exchange of Hong Kong.

For investor and media enquiries, please contact:

Jane Yip Tel: (86) 755 86013388 ext 68961/ (852) 3148 5100 Email: janeyip@tencent.com

Stella Lui Tel: (86) 755 86013388 ext 68870/ (852) 3148 5100 Email: stellalui@tencent.com

Kennis Lau Tel: (86) 755 86013388 ext 68958/ (852) 3148 5100 Email: kennislau@tencent.com

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain additional non-GAAP financial measures (in terms of, operating profit, operating margin, profit for the period, net margin, profit attributable to equity holders of the Company, basic EPS and 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 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 realised 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 million, unless specified

	Unaudited		Unaudited	
	1Q2017	1Q2016	1Q2017	4Q2016
Revenues	49,552	31,995	49,552	43,864
VAS	35,108	24,964	35,108	29,191
Online advertising	6,888	4,701	6,888	8,288
Others	7,556	2,330	7,556	6,385
Cost of revenues	(24,109)	(13,406)	(24,109)	(20,238)
Gross profit	25,443	18,589	25,443	23,626
Gross margin	51%	58%	51%	54%
Interest income	808	703	808	653
Other gains, net	3,191	506	3,191	1,022
Selling and marketing expenses	(3,158)	(2,032)	(3,158)	(4,462)
General and administrative expenses	(7,012)	(4,368)	(7,012)	(6,909)
Operating profit	19,272	13,398	19,272	13,930
Operating margin	39%	42%	39%	32%
Finance costs, net	(691)	(491)	(691)	(483)
Share of losses of associates and joint ventures	(375)	(1,089)	(375)	(522)
Profit before income tax	18,206	11,818	18,206	12,925
Income tax expense	(3,658)	(2,550)	(3,658)	(2,402)
Profit for the period	14,548	9,268	14,548	10,523
Net margin	29%	29%	29%	24%
Attributable to:				
Equity holders of the Company	14,476	9,183	14,476	10,529
Non-controlling interests	72	85	72	(6)
Non-GAAP profit attributable to equity holders of the Company	14,211	10,032	14,211	12,332
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	1.540	0.981	1.540	1.121
- diluted	1.522	0.970	1.522	1.108

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in million, unless specified

	Unaudited	
	1Q2017	1Q2016
Profit for the period	14,548	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	111	8
Net gains/(losses) from changes in fair value of available-for-sale financial assets	7,226	(1,653)
Transfer to profit or loss upon disposal of available-for-sale financial assets	(1,832)	-
Currency translation differences	(985)	(214)
Other fair value gains/(losses)	59	(139)
<i>Items that may not be subsequently reclassified to profit or loss</i>		
Other fair value losses	(343)	(262)
Total comprehensive income for the period	18,784	7,008
Attributable to:		
Equity holders of the Company	18,717	6,920
Non-controlling interests	67	88

OTHER FINANCIAL INFORMATION

RMB in million, unless specified

	Unaudited		
	1Q2017	4Q2016	1Q2016
EBITDA (a)	19,995	16,775	14,329
Adjusted EBITDA (a)	21,300	18,495	15,004
Adjusted EBITDA margin (b)	43%	42%	47%
Interest expense	667	611	477
Net cash (c)	27,572	18,140	27,429
Capital expenditures (d)	2,108	2,839	4,105

Note:

- (a) EBITDA consists of operating profit less interest income and other gains/losses, net, and plus depreciation of property, plant and equipment as well as 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 others, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, land use rights and intangible assets (excluding online game and other content licences).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB in million, unless specified

	Unaudited	Audited
	31 March 2017	31 December 2016
ASSETS		
Non-current assets		
Property, plant and equipment	14,708	13,900
Construction in progress	4,819	4,674
Investment properties	847	854
Land use rights	5,147	5,174
Intangible assets	36,338	36,467
Investments in associates	69,983	70,042
Investments in redeemable instruments of associates	14,161	9,627
Investments in joint ventures	696	630
Available-for-sale financial assets	97,527	83,806
Prepayments, deposits and other assets	7,499	7,363
Other financial assets	1,813	1,760
Deferred income tax assets	7,536	7,033
Term deposits	5,414	5,415
	266,488	246,745
Current assets		
Inventories	263	263
Accounts receivable	12,900	10,152
Prepayments, deposits and other assets	17,579	14,118
Other financial assets	2,253	1,649
Term deposits	66,631	50,320
Restricted cash	763	750
Cash and cash equivalents	68,861	71,902
	169,250	149,154
Total assets	435,738	395,899

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in million, unless specified

	<u>Unaudited</u> 31 March 2017	<u>Audited</u> 31 December 2016
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	18,524	17,324
Shares held for share award schemes	(3,332)	(3,136)
Other reserves	27,892	23,693
Retained earnings	151,219	136,743
	<u>194,303</u>	<u>174,624</u>
Non-controlling interests	<u>11,384</u>	<u>11,623</u>
Total equity	<u>205,687</u>	<u>186,247</u>
LIABILITIES		
Non-current liabilities		
Borrowings	62,935	57,549
Notes payable	31,879	36,204
Long-term payables	4,422	4,935
Other financial liabilities	2,560	2,576
Deferred income tax liabilities	5,515	5,153
Deferred revenue	1,650	2,038
	<u>108,961</u>	<u>108,455</u>
Current liabilities		
Accounts payable	32,804	27,413
Other payables and accruals	17,998	20,873
Borrowings	11,889	12,278
Notes payable	7,581	3,466
Current income tax liabilities	6,551	5,219
Other tax liabilities	1,754	745
Deferred revenue	42,513	31,203
	<u>121,090</u>	<u>101,197</u>
Total liabilities	<u>230,051</u>	<u>209,652</u>
Total equity and liabilities	<u>435,738</u>	<u>395,899</u>

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

RMB in million, unless specified	As reported	Adjustments				Non-GAAP
		Share-based compensation(a)	Net (gains)/losses from investee companies(b)	Amortisation of intangible assets(c)	Impairment provision(d)	
Unaudited three months ended 31 March 2017						
Operating profit	19,272	1,339	(2,747)	153	503	18,520
Profit for the period	14,548	1,530	(2,717)	500	511	14,372
Profit attributable to equity holders	14,476	1,483	(2,717)	458	511	14,211
Operating margin	39%					37%
Net margin	29%					29%
Unaudited three months ended 31 December 2016						
Operating profit	13,930	1,754	(1,502)	162	602	14,946
Profit for the period	10,523	1,980	(1,440)	541	828	12,432
Profit attributable to equity holders	10,529	1,940	(1,440)	493	810	12,332
Operating margin	32%					34%
Net margin	24%					28%
Unaudited three months ended 31 March 2016						
Operating profit	13,398	707	(728)	47	60	13,484
Profit for the period	9,268	898	(786)	356	398	10,134
Profit attributable to equity holders	9,183	889	(786)	348	398	10,032
Operating margin	42%					42%
Net margin	29%					32%

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 and other financial instruments arising from investments 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