

For Immediate Release

TENCENT ANNOUNCES 2017 SECOND QUARTER AND INTERIM RESULTS

Hong Kong, AUGUST 16, 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 second quarter (“2Q2017”) and the first half year of 2017 (“1H2017”) ended June 30, 2017.

1H2017 Key Highlights¹ - Revenues: +57% YoY, non-GAAP net profit: +43% YoY

- Total revenues were RMB106,158 million (USD15,670 million), an increase of 57% over the first half of 2016 (“YoY”).
- Operating profit was RMB41,832 million (USD6,175million), an increase of 51% YoY. Operating margin decreased to 39% from 41% last year.
- Profit for the period was RMB32,802 million (USD4,842 million), an increase of 63% YoY. Net margin was increased to 31% from 30% last year.
- Profit attributable to equity holders of the Company for the period was RMB32,707 million (USD4,828 million), an increase of 64% YoY.
- Basic earnings per share were RMB3.480. Diluted earnings per share were RMB3.436.
- On a non-GAAP² basis, which exclude certain non-cash items and certain impact of M&A transactions:
 - Operating profit was RMB 38,556 million (USD5,691 million), an increase of 37% YoY. Operating margin decreased to 36% from 42% last year.
 - Profit for the period was RMB30,859 million (USD4,555 million), an increase of 43% YoY. Net margin decreased to 29% from 32% last year.
 - Profit attributable to equity holders of the Company for the period was RMB30,602 million (USD4,517 million), an increase of 43% YoY.
 - Basic earnings per share were RMB3.256. Diluted earnings per share were RMB3.215.

2Q2017 Key Highlights - Revenues: +59% YoY, non-GAAP net profit: +45% YoY

- Total revenues were RMB56,606 million (USD8,356 million), an increase of 59% over the second quarter of 2016 (“YoY”).
- Operating profit was RMB22,560 million (USD3,330 million), an increase of 57% YoY. Operating margin was 40%, broadly stable from last year.
- Profit for the period was RMB18,254 million (USD2,695 million), an increase of 68% YoY. Net margin increased to 32% from 30% last year.
- Profit attributable to equity holders of the Company for the period was RMB18,231 million (USD2,691 million), an increase of 70% YoY.
- Basic earnings per share were RMB1.939. Diluted earnings per share were RMB1.914.
- On a non-GAAP basis, which exclude certain non-cash items and certain impact of M&A transactions:

¹ Figures stated in USD are based on USD1 to RMB6.7744

² Non-GAAP adjustments excludes share-based compensation and M&A related impact such as net (gains)/losses from investee companies, amortisation of intangible assets and impairment provision

- Operating profit was RMB20,036 million (USD2,958 million), an increase of 36% YoY. Operating margin decreased to 35% from 41% last year.
- Profit for the period was RMB16,487 million (USD2,434 million), an increase of 43% YoY. Net margin decreased to 29% from 32% last year.
- Profit attributable to equity holders of the Company for the period was RMB16,391 million (USD2,420 million), an increase of 45% YoY.
- Basic earnings per share were RMB1.743. Diluted earnings per share were RMB1.721.

Chairman and CEO of Tencent, Mr. Ma Huateng, said, “During the second quarter of 2017, we delivered strong revenue growth from multiple businesses, which enabled us to reinvest in innovations and new technologies in an increasingly competitive industry. While our games business continued to grow, we have stepped up our effort to ensure users play games in a healthy manner. Successful licensed drama serials and self-commissioned variety shows boosted user engagement and advertising revenue for our video platform. Our payment business continued to make everyday life easier for Internet users, with increased adoption of Weixin Payment for offline transactions. We have also been increasing our investment in cloud services and AI technologies, which will enable us to serve our users and business partners even better into the future.”

2Q2017 Financial Review

Value Added Services (“VAS”). Revenues increased by 43% to RMB36,804 million for 2Q2017 on a YoY basis. Online games revenues increased by 39% to RMB23,861 million, primarily driven by revenue growth from our smart phone games, including existing titles such as Honour of Kings, and new titles such as the China version of Contra Return, Dragon Nest Mobile and Legacy TLBB Mobile, and from our key PC titles such as LoL and DnF. Social networks revenues increased by 51% to RMB12,943 million, mainly reflecting growth in revenues from digital content services such as live broadcast, video and music, as well as from item sales in smart phone games.

Online advertising. Revenues increased by 55% to RMB10,148 million for 2Q2017 on a YoY basis. Media advertising revenues grew by 48% to RMB4,077 million. The increase mainly reflected higher traffic for our Tencent Video services and news feed advertisements for our Tencent News products. Social and others advertising revenues grew by 61% to RMB6,071 million. The increase primarily reflected growth in advertising revenues derived from Weixin (primarily Weixin Moments and Weixin Official Accounts) and other mobile apps.³

Others. Revenues increased by 177% to RMB9,654 million for 2Q2017 on a YoY basis. The increase was mainly due to revenue growth from our payment related and cloud services.

Other Key Financial Information for 2Q2017

Share-based compensation was RMB1,408 million, up 63% YoY.

EBITDA was RMB22,427 million, up 44% YoY. Adjusted EBITDA was RMB23,802 million, up 45% YoY.

Capital expenditure was RMB3,010 million, doubled YoY.

Free cash flow was RMB17,511 million, up 80% YoY.

³ Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 71% to RMB6,332 million and brand display advertising revenues increased by 35% to RMB3,816 million on a YoY basis.

As at June 30, 2017, net cash position totalled RMB21,267 million. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB146 billion as at June 30, 2017.

Business Review and Outlook

In the second quarter of 2017

We achieved 59% YoY revenue growth, driven primarily by smart phone games and PC games, payment related services, online advertising, and digital content subscriptions and sales. Operating profit grew by 57% YoY. Profit attributable to equity holders of the Company increased by 70% YoY. Non-GAAP profit attributable to equity holders of the Company increased by 45% YoY. Free cash flow grew by 80% YoY.

Operating Information

- Monthly active user accounts (“MAU”) of QQ was 850 million, a decrease of 5.4% YoY.
- Smart device MAU of QQ was 662 million, a decrease of 3.9% YoY.
- Peak concurrent user accounts (“PCU”) of QQ (for the quarter) was 268 million, an increase of 8.4% YoY.
- Combined MAU of Weixin and WeChat were 963 million, an increase of 19.5% YoY.
- MAU of Qzone was 606 million, a decrease of 7.0% YoY.
- Smart device MAU of Qzone was 586 million, a decrease of 3.5% YoY.
- Fee-based VAS registered subscriptions were 118 million, an increase of 12.4% YoY.

Social and Communications

- QQ: Overall smart device MAU was down by 3.9% YoY due to fewer casual users, while engagement with core users increased. Specifically, PCU, including PC and mobile, increased by 8.4% YoY to 268 million. In addition, smart device MAU for users aged 21 years or below was up YoY, demonstrating QQ’s increased popularity among younger users. Popular features within Mobile QQ, such as Kandian news feeds, increased average user time spent within Mobile QQ.
- Qzone: Smart device MAU was down by 3.5% YoY broadly in line with the decrease in smart device MAU of QQ. We introduced campus page to increase engagement among users in high schools and colleges
- Weixin and WeChat: MAU reached 963 million, representing YoY growth of 19.5%. We have extended user access to *Mini Programs* through the launch of keyword and location-based search functions.

Online Games

PC client games achieved approximately RMB13.6 billion in revenue, representing 29% YoY revenue growth with exceptional strength from key titles such as LoL and DnF. Average revenue per user (“ARPU”) generally increased both YoY and quarter-on-quarter. We expect PC client game revenue growth rates to decelerate in future periods.

Smart phone games grew by 54% YoY to approximately RMB14.8 billion in revenue (including smart phone games revenue attributable to our social networks business) and exceeded PC client games revenue for the first time. Revenue growth in smart phone games was driven by existing titles such as Honour of Kings in the MOBA genre, and new titles such as the China version of Contra Return in the Action genre, Dragon Nest Mobile and Legacy TLBB Mobile in the RPG genre.

Digital Content

Digital content revenue continued to record rapid growth during the quarter, primarily driven by the strong performance of virtual gifting with live broadcast, video subscriptions and music services subscriptions.

Online Advertising

Our online advertising business achieved 55% YoY growth in revenue.

For media advertising, increased mobile video views and the news feeds of Tencent News were the key contributors to YoY revenue growth. High quality content, notably certain licensed TV dramas and self-commissioned variety shows, attracted users to our video platforms and generated a substantial increase in advertising revenue. While our mobile news services maintained industry leadership in terms of daily active user accounts (“DAU”), we focused on sharpening personalized recommendation of our news feeds to further enhance our user experience.

For social and others advertising, Weixin properties, our mobile browser and advertising network, were the primary drivers of revenue growth. We increased inventories in Weixin by lowering the traffic threshold for loading advertisements in Official Accounts and expanded our self-service ad platform to cover first-tier cities for placing Weixin Moments advertisements.

Others

We recorded 177% YoY revenue growth for other businesses, which was primarily driven by the growth of payment related and cloud services. Payment business for commercial transactions increased rapidly as we strengthened cooperation with Meituan-Dianping and other channel partners to expand our offline merchant base.

Tencent Cloud further expanded its global infrastructure coverage and now operates 34 availability zones around the world. In addition to solidifying our lead in providing cloud services to the game, video and live broadcast industries, we expanded our market share in TMT and finance industries during the quarter.

We view artificial intelligence (“AI”) as an essential capability that benefits our businesses by enhancing our overall user experience, sharpening our targeting technology and empowering our ecosystem partners. Our in-house engineers have recently made breakthroughs in several areas including Go Chess AI, face recognition and medical imaging. Artificial intelligence is a strategic initiative and we will continue to make long-term investments to strengthen our competence in machine learning, computer vision, speech recognition and natural language processing. Given the intensifying competitive nature of the industry, we expect our investment in new initiatives such as payment, cloud services and AI to increase, enabling us to serve our users and business partners even better into the future.

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



###

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
Kenniss 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	
	2Q2017	2Q2016	2Q2017	1Q2017
Revenues	56,606	35,691	56,606	49,552
VAS	36,804	25,680	36,804	35,108
Online advertising	10,148	6,532	10,148	6,888
Others	9,654	3,479	9,654	7,556
Cost of revenues	(28,300)	(15,235)	(28,300)	(24,109)
Gross profit	28,306	20,456	28,306	25,443
<i>Gross margin</i>	<i>50%</i>	<i>57%</i>	<i>50%</i>	<i>51%</i>
Interest income	959	626	959	808
Other gains, net	5,125	911	5,125	3,191
Selling and marketing expenses	(3,660)	(2,365)	(3,660)	(3,158)
General and administrative expenses	(8,170)	(5,299)	(8,170)	(7,012)
Operating profit	22,560	14,329	22,560	19,272
<i>Operating margin</i>	<i>40%</i>	<i>40%</i>	<i>40%</i>	<i>39%</i>
Finance costs, net	(834)	(377)	(834)	(691)
Share of profit/ (losses) of associates and joint venture	498	(292)	498	(375)
Profit before income tax	22,224	13,660	22,224	18,206
Income tax expense	(3,970)	(2,780)	(3,970)	(3,658)
Profit for the period	18,254	10,880	18,254	14,548
<i>Net margin</i>	<i>32%</i>	<i>30%</i>	<i>32%</i>	<i>29%</i>
Attributable to:				
Equity holders of the Company	18,231	10,737	18,231	14,476
Non-controlling interests	23	143	23	72
Non-GAAP profit attributable to equity holders of the Company	16,391	11,319	16,391	14,211
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	1.939	1.146	1.939	1.540
- diluted	1.914	1.133	1.914	1.522

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in million, unless specified

	Unaudited	
	2Q2017	2Q2016
Profit for the period	18,254	10,880
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	66	277
Net gains from changes in fair value of available-for-sale financial assets	10,190	4,979
Transfer to profit or loss upon disposal of available-for-sale financial assets	-	79
Currency translation differences	(3,232)	1,308
Other fair value losses	(162)	(182)
<i>Items that may not be subsequently reclassified to profit or loss</i>		
Other fair value losses	(47)	(66)
Total comprehensive income for the period	25,069	17,275
Attributable to:		
Equity holders of the Company	25,063	17,116
Non-controlling interests	6	159

OTHER FINANCIAL INFORMATION

RMB in million, unless specified

	Unaudited		
	2Q2017	1Q2017	2Q2016
EBITDA (a)	22,427	19,995	15,581
Adjusted EBITDA (a)	23,802	21,300	16,401
Adjusted EBITDA margin (b)	42%	43%	46%
Interest expense	760	667	494
Net cash (c)	21,267	27,572	24,037
Capital expenditures (d)	3,010	2,108	1,505

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 media contents, game licences and other contents).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB in million, unless specified

	Unaudited	Audited
	30 June 2017	31 December 2016
ASSETS		
Non-current assets		
Property, plant and equipment	15,874	13,900
Construction in progress	5,346	4,674
Investment properties	846	854
Land use rights	5,165	5,174
Intangible assets	38,891	36,467
Investments in associates	74,202	70,042
Investments in redeemable instruments of associates	23,789	9,627
Investments in joint ventures	715	630
Available-for-sale financial assets	107,117	83,806
Prepayments, deposits and other assets	8,261	7,363
Other financial assets	4,033	1,760
Deferred income tax assets	8,076	7,033
Term deposits	5,364	5,415
	297,679	246,745
Current assets		
Inventories	297	263
Accounts receivable	14,448	10,152
Prepayments, deposits and other assets	18,013	14,118
Other financial assets	1,974	1,649
Term deposits	61,474	50,320
Restricted cash	1,327	750
Cash and cash equivalents	70,301	71,902
	167,834	149,154
Total assets	465,513	395,899

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in million, unless specified

	Unaudited	Audited
	30 June 2017	31 December 2016
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	19,793	17,324
Shares held for share award schemes	(3,513)	(3,136)
Other reserves	33,996	23,693
Retained earnings	164,398	136,743
	214,674	174,624
Non-controlling interests	11,724	11,623
Total equity	226,398	186,247
LIABILITIES		
Non-current liabilities		
Borrowings	70,460	57,549
Notes payable	31,294	36,204
Long-term payables	4,459	4,935
Other financial liabilities	2,468	2,576
Deferred income tax liabilities	5,171	5,153
Deferred revenue	1,886	2,038
	115,738	108,455
Current liabilities		
Accounts payable	36,982	27,413
Other payables and accruals	21,224	20,873
Borrowings	10,779	12,278
Notes payable	4,059	3,466
Current income tax liabilities	6,332	5,219
Other tax liabilities	1,041	745
Deferred revenue	42,960	31,203
	123,377	101,197
Total liabilities	239,115	209,652
Total equity and liabilities	465,513	395,899

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

<i>RMB in million, unless specified</i>	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 30 June 2017						
Operating profit	22,560	1,408	(5,619)	115	1,572	20,036
Profit for the period	18,254	1,553	(5,691)	472	1,899	16,487
Profit attributable to equity holders	18,231	1,492	(5,670)	439	1,899	16,391
Operating margin	40%					35%
Net margin	32%					29%
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
<i>Operating margin</i>	<i>39%</i>					<i>37%</i>
<i>Net margin</i>	<i>29%</i>					<i>29%</i>
Unaudited three months ended 30 June 2016						
Operating profit	14,329	862	(2,990)	49	2,437	14,687
Profit for the period	10,880	1,056	(3,251)	328	2,483	11,496
Profit attributable to equity holders	10,737	1,037	(3,247)	317	2,475	11,319
<i>Operating margin</i>	<i>40%</i>					<i>41%</i>
<i>Net margin</i>	<i>30%</i>					<i>32%</i>

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 arising from investments
- (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