

For Immediate Release

Tencent Announces 2014 Second Quarter and Interim Results

Revenue Increased 37% YoY, Non-GAAP Net Income¹ Increased 36% YoY

Hong Kong, August 13, 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 second quarter and the first half year of 2014 ended June 30, 2014.

Highlights of the First Half of 2014:

- Total revenues were RMB38,146 million (USD6,200 million²), an increase of 37% over the first half of year ended June 30, 2013 (“YoY”).
- Gross profit was RMB22,772 million (USD3,701 million), an increase of 48% YoY. Gross profit margin increased to 60% from 55% for the first half of 2013.
- Operating profit was RMB15,633 million (USD2,541 million), an increase of 62% YoY. Operating margin increased to 41% from 34% for the first half of 2013.
Non-GAAP operating profit³ was RMB14,165 (USD2,302) million, an increase of 40% YoY. Non-GAAP operating margin increased to 37% from 36% for the first half of 2013.
- Profit for the period was RMB12,258 million (USD1,992 million), an increase of 58% YoY. Net margin increased to 32% from 28% for the first of 2013.
Non-GAAP profit for the period was RMB11,096 (USD1,803 million), an increase of 34% YoY. Non-GAAP net margin decreased to 29% from 30% for the first half of 2013.
- Profit attributable to equity holders of the Company was RMB12,293 million (USD1,998 million), an increase of 59% YoY.
Non-GAAP profit attributable to equity holders of the Company for the quarter was RMB11,068 million (USD1,799 million), an increase of 36% YoY.
- Basic earnings per share⁴ were RMB1.332 and diluted earnings per share⁴ were RMB1.313. Non-GAAP basic earnings per share⁴ were RMB1.199 and non-GAAP diluted earnings per share⁴ were RMB1.182.

Highlights of the Second Quarter of 2014:

- Total revenues were RMB19,746 million (USD3,209 million), an increase of 7% over the first quarter of 2014 (“QoQ”) or an increase of 37% over the second quarter of 2013.
- Gross profit was RMB12,172 million (USD1,978 million), an increase of 15% QoQ or an increase of 56% YoY. Gross margin increased to 62% from 58% last quarter.
- Operating profit was RMB7,843 million (USD1,275 million), an increase of 1% QoQ or an increase of 72% YoY. Operating margin decreased to 40% from 42% last quarter.
Non-GAAP operating profit was RMB7,688 million (USD1,250 million), an increase of 19% QoQ or 53% YoY. Non-GAAP operating margin increased to 39% from 35% last quarter.

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 RMB6.1528

³ Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustment. Comparative figures have been restated to conform to the new presentation.

⁴ EPS was stated after taking into account the effect of Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.

- Profit for the period was RMB5,826 million (USD947 million), a decrease of 9% QoQ or an increase of 58% YoY. Net margin decreased to 30% from 35% last quarter.
Non-GAAP profit for the period was RMB5,890 million (USD957 million), an increase of 13% QoQ or an increase of 41% YoY. Non-GAAP net margin increased to 30% from 28% last quarter.
- Profit attributable to equity holders of the Company for the quarter was RMB5,836 million (USD949 million), a decrease of 10% QoQ or an increase of 59% YoY.
Non-GAAP profit attributable to equity holders of the Company for the quarter was RMB5,874 million (USD955 million), an increase of 13% QoQ or an increase of 42% YoY.
- Basic earnings per share were RMB0.632; diluted earnings per share were RMB0.623. Non-GAAP basic earnings per share were RMB0.636; diluted earnings per share were RMB0.627.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “In the second quarter, we deepened user engagement on mobile across our social, games and media platforms. Our online advertising business grew particularly strongly, benefiting from increased traffic at our video platform, the FIFA World Cup event, and performance advertising on our mobile social platform. Our ecosystem continues to expand as we pursue the strategy of working with category leaders, including NavInfo, a mapping service provider and 58.com, a local listing platform. We are seeing the benefits of this approach, as evidenced in the successful listing of JD.com. Looking forward, we will continue to grow our platform, invest in areas such as O2O and content, and enhance our user experience.”

Financial Review for the Second Quarter of 2014

Value Added Services (VAS). Revenues from our VAS business increased by 9% QoQ to RMB15,713 million. Online games revenues increased by 7% QoQ to RMB11,081 million, despite weaker seasonality for ACG in China. This was primarily driven by revenue growth from smart phone games integrated with Mobile QQ and Weixin. Revenues from PC client games remained broadly stable. Social networks revenues increased by 15% QoQ to RMB4,632 million. This was mainly driven by growth in item sales on mobile platforms. Subscription revenues registered modest sequential growth due to an increase in revenues from QQ Membership, Qzone Subscription Service and Super VIP.

Online advertising. Revenues from our online advertising business increased by 75% QoQ to RMB2,064 million. This primarily reflected more favourable seasonality in the second quarter, as well as the positive impact of the FIFA World Cup and our strategic co-operation with JD.com. This also reflected the continued growth in video advertising and performance-based social advertising.

eCommerce transactions. Revenues from our eCommerce transactions business decreased by 48% QoQ to RMB1,324 million. This primarily reflected the shift in traffic and the divestment of our eCommerce marketplaces as a result of our strategic transaction with JD.com.

Other Key Financial Information for the Second Quarter of 2014

Share-based compensation was RMB587 million for the second quarter of 2014 as compared with RMB568 million for the previous quarter.

Capital expenditure was RMB917 million for the second quarter of 2014 as compared with RMB1,138 million for the previous quarter.

The Company repurchased 153,000 shares on the Stock Exchange of Hong Kong for an aggregate consideration of HKD77 million in the second quarter of 2014.

As at June 30, 2014, net cash position totaled RMB22,485 million which excluded borrowings of RMB8,820 million and long-term notes payable of RMB26,912 million.

As at June 30, 2014, the total number of shares of the Company in issue was 9.343 billion.

Strategic Highlights

We continued to enrich our O2O ecosystem by making strategic investments in and partnering with classified listings company 58.com and map service provider NavInfo. We believe our users will benefit from the expanding range of quality services enabled by our O2O partners, broadening and enhancing their user experiences. We believe merchants and service providers will benefit in areas such as better customer relationship management, improved consumer targeting, enhanced word-of-mouth effect through social referral and more efficient transaction settlement with our mobile payment solutions.

In recent months, a number of our investee companies have become publicly listed as a result of IPOs, including JD.com and Cheetah Mobile. Taking into account these newly-listed investments, together with our investments in already-listed companies such as 58.com, Mail.ru and Kingsoft, the fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totaled RMB65 billion at the end of the second quarter of 2014.

Divisional and Product Highlights

- Key platform statistics:
 - MAU of QQ user accounts were 829 million, a decrease of 2% QoQ or an increase of 1% YoY.
 - Smart device MAU of QQ was 521 million, an increase of 6% QoQ or an increase of 45% YoY.
 - PCU of QQ was 206 million, an increase of 3% QoQ or an increase of 19% YoY.
 - Combined MAU of Weixin and WeChat were 438 million, an increase of 11% QoQ or an increase of 57% YoY.
 - MAU of Qzone was 645 million, stable QoQ or an increase of 3% YoY.
 - Smart device MAU of Qzone was 497 million, an increase of 6% QoQ or an increase of 37% YoY.
 - Fee-based VAS registered subscriptions were 88 million, stable QoQ or a decrease of 11% YoY.

Key Platforms

In the second quarter of 2014, QQ and Qzone continued to experience significant expansion in mobile user base and enhanced user engagement. For QQ, smart device MAU increased by 45% YoY to 521 million at the end of the quarter. We enhanced the ecosystem on Mobile QQ by connecting with the services of our strategic partners, such as JD.com and Dianping, and upgrading Mobile QQ Wallet, which enables users to purchase virtual goods and settle O2O transactions via their bank cards. We enhanced community activity through new functions such as Interest Tribes and improved the user experience for picture sharing. For Qzone, smart device MAU increased by 37% YoY to 497 million at the end of the second quarter of 2014. User engagement and activity improved during the quarter with cross-platform integration and enhanced user experience.

Combined MAU of Weixin and WeChat increased by 57% YoY to 438 million at the end of the second quarter of 2014. We enhanced the community and payment functionalities of Weixin, and broadened the breadth and reach of Weixin's service offerings by connecting our core capabilities with those of our strategic partners. For instance, users can now purchase products from JD.com through a direct access point in Weixin and settle the transactions via Weixin Payment, and can search content of Weixin's Official Accounts via Sogou. As for WeChat, we continued to focus on driving user engagement in selected international markets.

In the second quarter of 2014, we enhanced the leadership of our media platforms, in particular by using our social networks to deliver updates in a timely and relevant manner. For the FIFA World Cup, we combined our content strengths with the extensive reach of our leading media platforms across PC and mobile, including Tencent News and Tencent Video, and our highly engaging social platforms. As a result, we leveraged the event to generate not only significant traffic and user interaction, but also healthy contributions to our revenues and profits.

VAS

In the second quarter of 2014, our social networks business expanded further. Item sales on our platforms registered solid YoY growth mainly due to mobile, while the declining trend in our VAS subscription services also showed initial signs of bottoming out. As compared to the previous quarter, total subscription count stabilised and revenues grew moderately, primarily driven by our continued focus on enriching the mobile privileges of our subscription services. QQ Membership and Qzone subscription service achieved sequential revenue growth, while contribution from Super VIP continued to increase.

Our online game business achieved healthy YoY growth in the second quarter of 2014. For PC client games, we benefited from contribution of new titles, such as Assault Fire and Blade & Soul, together with the growth of LoL in China and international markets. We will continue to enrich our portfolio of ACGs and MMOGs with new titles in different genres, while introducing expansion packs for our major titles. For mobile games, we built a significant revenue base and established a strong market position in publishing. Total revenues generated from smart phone games integrated with Mobile QQ and Weixin increased sequentially to approximately RMB3 billion for the second quarter of 2014, reflecting growth in our paying user base and ARPU driven by mid-core games and in-game promotions. We were ranked the No. 1 publisher in China's iOS App Store by free downloads and revenue for each of the first seven months of 2014, according to App Annie. Given we have already achieved substantial revenue from smart phone games in the first half of 2014, we intend to prioritise user engagement and game portfolio expansion over revenue growth during the second half of this year. Consequently, it is possible that our smart phone games revenues for each of the coming two quarters would be broadly stable as compared to the level for the second quarter of 2014.

Online advertising

In the second quarter of 2014, our advertising business benefited from the growth in video advertising and performance-based social advertising, as well as the positive impacts of the FIFA World Cup and our strategic co-operation with JD.com. During the quarter, we made initial progress in monetising mobile advertising opportunities, capitalising on our significant traffic base across different mobile platforms. For instance, in the second quarter of 2014, we generated meaningful performance-based advertising revenues on Mobile Qzone, and we experimented with performance-based text link advertising on selected Weixin Official Accounts.

eCommerce Transactions

Our eCommerce transaction business has entered a transitional phase subsequent to our strategic transaction with JD.com in March 2014. During the quarter, the business experienced a significant decline in revenues and costs, arising from the traffic shift to JD.com and the divestment of our eCommerce marketplaces as a result of the transaction. We expect the eCommerce segment's revenues and costs to decline further as we continue shifting focus toward supporting our strategic partnership with JD.com, consistent with the new strategy we announced during the first quarter of 2014.

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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	
	2Q2014	1Q2014	2Q2014	2Q2013
Revenues	19,746	18,400	19,746	14,384
VAS	15,713	14,413	15,713	10,752
Online advertising	2,064	1,177	2,064	1,297
eCommerce transactions	1,324	2,524	1,324	2,199
Others	645	286	645	136
Cost of revenues	(7,574)	(7,800)	(7,574)	(6,590)
Gross profit	12,172	10,600	12,172	7,794
Gross margin	62%	58%	62%	54%
Interest income	406	375	406	324
Other gains, net	691	1,607	691	82
Selling and marketing expenses	(1,973)	(1,855)	(1,973)	(1,234)
General and administrative expenses	(3,453)	(2,937)	(3,453)	(2,401)
Operating profit	7,843	7,790	7,843	4,565
Operating margin	40%	42%	40%	32%
Finance (costs) /income, net	(354)	(238)	(354)	14
Share of profit/(losses) of associates	23	45	23	46
Share of losses of joint ventures	-	(1)	-	(15)
Profit before income tax	7,512	7,596	7,512	4,610
Income tax expense	(1,686)	(1,164)	(1,686)	(926)
Profit for the period	5,826	6,432	5,826	3,684
Net margin	30%	35%	30%	26%
Attributable to:				
Equity holders of the Company	5,836	6,457	5,836	3,680
Non-controlling interests	(10)	(25)	(10)	4
Non-GAAP profit attributable to equity holders of the Company	5,874	5,194	5,874	4,126
Earnings per share* (GAAP)				
- basic (RMB)	0.632	0.700	0.632	0.402
- diluted (RMB)	0.623	0.690	0.623	0.395

* EPS was stated after taking into account the effect of Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in millions, unless specified

	Unaudited		Unaudited	
	2Q2014	1Q2014	2Q2014	2Q2013
Profit for the period	5,826	6,432	5,826	3,684
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	5	8	5	-
Net gains/(losses) from changes in fair value of available-for-sale financial assets	730	(37)	730	368
Currency translation differences	(11)	17	(11)	(28)
Total comprehensive income for the period	6,550	6,420	6,550	4,024
Attributable to:				
Equity holders of the Company	6,556	6,441	6,556	4,025
Non-controlling interests	(6)	(21)	(6)	(1)

OTHER FINANCIAL INFORMATION

RMB in millions, unless specified

	Unaudited		
	2Q2014	1Q2014	2Q2013
EBITDA (a)	8,018	6,787	4,968
Adjusted EBITDA (a)	8,445	7,121	5,228
Adjusted EBITDA margin (b)	43%	39%	36%
Interest expense	224	112	92
Net cash (c)	22,485	34,245	33,556
Capital expenditures (d)	917	1,138	1,464

Note:

- 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.
- Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- Net cash represents period end balance and is calculated as cash and cash equivalents, term deposits, minus borrowings and long-term notes payable.
- 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	Unaudited
	30 June 2014	31 March 2014
ASSETS		
Non-current assets		
Fixed assets	8,336	8,628
Construction in progress	2,510	2,214
Investment properties	270	272
Land use rights	802	806
Intangible assets	4,181	4,369
Interests in associates	42,604	24,928
Investment in joint ventures	18	19
Deferred income tax assets	317	352
Available-for-sale financial assets	14,180	14,278
Prepayments, deposits and other assets	1,263	1,291
Term deposits	6,719	8,415
	81,200	65,572
Current assets		
Inventories	656	939
Accounts receivable	4,185	3,103
Prepayments, deposits and other assets	7,291	6,778
Term deposits	18,139	17,574
Restricted cash	6,523	6,426
Cash and cash equivalents	32,639	26,523
	69,433	61,343
Total assets	150,633	126,915
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	-	-
Share premium	3,601	3,185
Shares held for share award schemes	(898)	(881)
Other reserves	4,523	3,530
Retained earnings	62,756	58,681
	69,982	64,515
Non-controlling interests	493	491
Total equity	70,475	65,006
LIABILITIES		
Non-current liabilities		
Borrowings	4,030	5,199
Long-term notes payable	26,192	9,232
Deferred income tax liabilities	1,917	1,490
Long-term payables	1,227	1,624
Deferred revenue	3,966	4,147
	37,332	21,692
Current liabilities		
Accounts payable	8,362	8,006
Other payables and accruals	13,517	12,127
Borrowings	4,790	3,836
Current income tax liabilities	839	725
Other tax liabilities	649	428
Deferred revenue	14,669	15,095
	42,826	40,217
Total liabilities	80,158	61,909
Total equity and liabilities	150,663	126,915

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 2014							
Operating profit	7,843	427	160	(1,082)	15	325	7,688
<i>Operating margin</i>	40%						39%
Profit for the period	5,826	427	160	(1,052)	204	325	5,890
<i>Net margin</i>	30%						30%
Profit attributable to equity holders	5,836	418	145	(1,052)	202	325	5,874
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
Unaudited three months ended 30 June 2013							
Operating profit	4,565	260	187	(25)	39	-	5,026
<i>Operating margin</i>	32%						35%
Profit for the period	3,684	260	187	(25)	58	-	4,164
<i>Net margin</i>	26%						29%
Profit attributable to equity holders	3,680	259	164	(25)	48	-	4,126

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