

For Immediate Release

TENCENT ANNOUNCES 2020 SECOND QUARTER AND INTERIM RESULTS

Hong Kong, August 12, 2020 – 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 (“2Q2020”) and first half year of 2020 (“1H2020”) ended June 30, 2020.

1H2020 Key Highlights

Revenues: +28% YoY; Non-IFRS¹ profit attributable to equity holders of the Company: +29% YoY

- Total revenues were RMB222,948 million (USD31,492 million²), an increase of 28% over the first half of 2019 (“YoY”).
- **On a non-IFRS basis**, which is intended to reflect core earnings by excluding certain one-time and/or non-cash items:
 - Operating profit was RMB73,204 million (USD10,340 million), an increase of 31% YoY. Operating margin increased to 33% from 32% last year.
 - Profit for the period was RMB59,204 million (USD8,363 million), an increase of 29% YoY. Net margin increased to 27% from 26% last year.
 - Profit attributable to equity holders of the Company for the period was RMB57,232 million (USD8,084 million), an increase of 29% YoY.
 - Basic earnings per share were RMB6.038. Diluted earnings per share were RMB5.945.
- **On an IFRS basis:**
 - Operating profit was RMB76,571 million (USD10,816 million), an increase of 19% YoY. Operating margin decreased to 34% from 37% last year.
 - Profit for the period was RMB61,857 million (USD8,737 million), an increase of 18% YoY. Net margin decreased to 28% from 30% last year.
 - Profit attributable to equity holders of the Company for the period was RMB62,003 million (USD8,758 million), an increase of 21% YoY.
 - Basic earnings per share were RMB6.541. Diluted earnings per share were RMB6.440.
- **Total cash** were RMB281,086 million (USD39,704 million) at the end of the period.

2Q2020 Key Highlights

Revenues: +29% YoY; Non-IFRS profit attributable to equity holders of the Company: +28% YoY

- Total revenues were RMB114,883 million (USD16,228 million), an increase of 29% over the second quarter of 2019 (“YoY”).
- **On a non-IFRS basis**, which is intended to reflect core earnings by excluding certain one-time and/or non-cash items:
 - Operating profit was RMB37,629 million (USD5,315 million), an increase of 38% YoY.

¹ Non-IFRS adjustments (formerly referred to as non-GAAP) excludes share-based compensation, M&A related impact such as net (gains)/losses from investee companies, amortisation of intangible assets and impairment provision/(reversals), as well as income tax effects.

² Figures stated in USD are based on USD1 to RMB7.0795

- Operating margin increased to 33% from 31% last year.
- Profit for the period was RMB31,220 million (USD4,410 million), an increase of 29% YoY. Net margin remained stable at 27%.
- Profit attributable to equity holders of the Company for the quarter was RMB30,153 million (USD4,259 million), an increase of 28% YoY.
- Basic earnings per share were RMB3.180. Diluted earnings per share were RMB3.130.
- **On an IFRS basis:**
 - Operating profit was RMB39,311 million (USD5,553 million), an increase of 43% YoY. Operating margin increased to 34% from 31% last year.
 - Profit for the period was RMB32,454 million (USD4,584 million), an increase of 31% YoY. Net margin remained stable at 28%.
 - Profit attributable to equity holders of the Company for the quarter was RMB33,107 million (USD4,676 million), an increase of 37% YoY.
 - Basic earnings per share were RMB3.491. Diluted earnings per share were RMB3.437.

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “Since the beginning of this year, the COVID-19 pandemic has swept the world, disrupting our daily work and life routines. During this challenging time, we utilised our platforms and technologies to help users adapt to the new normal via online tools, to support enterprises in conducting digital upgrades, and to broadly contribute to economic recovery. We achieved generally robust operating and financial results in the second quarter, testifying to the diligence of our teams and resilience of our business model. We are committed to investing in talents, technology and platforms in a disciplined manner to embrace the emerging structural opportunities and challenges ahead.”

2Q2020 Financial Review

Revenue from VAS increased by 35% to RMB65,002 million for the second quarter of 2020 on a year-on-year basis. Online games revenues grew by 40% to RMB38,288 million. The increase was primarily driven by higher revenues from smart phone games in both domestic and overseas markets, including titles such as Peacekeeper Elite and Honour of Kings, partly offset by the decrease in revenues from PC client games such as DnF and CrossFire. Total smart phone games revenues (including smart phone games revenues attributable to our social networks business) were RMB35,988 million and PC client games revenues were RMB10,912 million for the second quarter of 2020. Social networks revenues increased by 29% to RMB26,714 million. The increase was mainly due to revenue contributions from digital content services including the live broadcast services of HUYA Inc. (“HUYA”, which we consolidated as a subsidiary from April 2020), and music subscriptions growth, as well as revenue growth from in-game virtual item sales.

Revenues from FinTech and Business Services increased by 30% to RMB29,862 million for the second quarter of 2020 on a year-on-year basis. The increase mainly reflected revenue growth from commercial payment due to increased average daily transactions and value per transaction, from wealth management, as well as from cloud services as a result of greater consumption of our public cloud, particularly by the Internet services and municipal services sectors.

Revenues from Online Advertising increased by 13% to RMB18,552 million for the second quarter of

2020 on a year-on-year basis. Social and others advertising revenues grew by 27% to RMB15,262 million. The increase was primarily due to revenue growth from our mobile advertising network, benefitting from increased traffic and a greater mix of video advertising with higher pricing, as well as increased revenues derived from Weixin Moments due to more inventories and impressions. Media advertising revenues decreased by 25% to RMB3,290 million. The decrease was primarily driven by lower advertising revenues from Tencent Video as a result of weak brand advertising demand amid the challenging macro environment, as well as delayed content production and releases.

Other Key Financial Information for 2Q2020

EBITDA was RMB40,525 million, up 24% YoY. Adjusted EBITDA was RMB43,742 million, up 25% YoY. Capital expenditures were RMB9,466 million, up 117% YoY. Free cash flow* was RMB28,451 million, up 127% YoY.

As at June 30, 2020, net cash position totalled RMB7,212 million. Fair value of our stakes in listed investee companies (excluding subsidiaries) totalled RMB726,244 million.

** Starting from 2020, free cash flow was adjusted by subtracting payments for media content and lease liabilities, in addition to subtracting payments for capital expenditure from the operating cash flow. Restated free cash flow was RMB16.8 billion in 1Q2019, RMB12.6 billion in 2Q2019, RMB28.1 billion in 3Q2019, and RMB31.3 billion in 4Q2019, respectively.*

Operating Metrics

	As at 30 June 2020	As at 30 June 2019 <small>(in millions, unless specified)</small>	Year- on-year change	As at 31 March 2020	Quarter-on- quarter change
Combined MAU of Weixin and WeChat	1,206.1	1,132.7	6.5%	1,202.5	0.3%
Smart device MAU of QQ	647.6	706.7	-8.4%	693.5	-6.6%
Fee-based VAS registered subscriptions	203.4	168.9	20.4%	197.4	3.0%

Business Review and Outlook

Since the beginning of this year, the COVID-19 pandemic has swept the world, disrupting our daily work and life routines. During this challenging time, we utilised our platforms and technologies to help users adapt to the new normal via online tools, to support enterprises in conducting digital upgrades, and to broadly contribute to economic recovery. Here are some highlights for our key products and business lines:

Communication and Social

For Weixin, we released update to enhance functionalities for communication, content and services. For communication, the new Tickle function has enabled many creative expressions, and the addition of live broadcast function to Weixin school-plus-home groups facilitated online education within Weixin. MAUs and daily messages sent both increased year-on-year. For content, we upgraded the video content publishing functionalities in Official Accounts, enhanced content discovery with strengthened

recommendation algorithm and launched content aggregation tools. These initiatives revitalised content consumption in Official Accounts, resulting in year-on-year increase in page views. As for services, we assisted traditional retailers to migrate online and support their business resumption via Mini Programs. Transactions value generated via Mini Programs increased sequentially as economic activities recovered. We launched a free and easy-to-use toolkit, Mini Stores, to help long-tail merchants build and operate digital storefronts, empowering them with various functions such as order management, after-sales services and live broadcast.

In QQ, we enriched features to enable users to better interact with their friends and families while they are physically apart. Users can initiate online parties and play AI-empowered social games together with their friends in video chats. To engage the expanding fan base for Anime, Comics, Games and Novels (“ACGN”) content, we offered customisable comic stickers within QQ chats, and enriched content for ACGN-related Mini Programs, which gained popularity among young users.

Online Games

In China, user time spent on our smart phone games increased year-on-year but decreased quarter-on-quarter due to seasonality and back-to-office behavior. Honour of Kings deepened its user engagement with the release of more top-tier skins during its annual Give Me Five festival. Peacekeeper Elite celebrated its first anniversary with new content and game modes to enhance the competitive game experience, and we partnered with Tesla to introduce in-game Tesla-branded car skins in July, which proved highly popular. In the second quarter, we launched a strategy game, Chess Rush; an action game based on a popular anime IP, The Outcast; and Supercell’s Brawl Stars. Brawl Stars ranked first in the iOS China Download Chart in June this year, extending its global leadership in the fast-paced 3v3 MOBA genre.

Internationally, our MAU increased significantly year-on-year and quarter-on-quarter due to new game launches and more user time spent during the stay-at-home period. We released an immersive team-based action game for PC, Valorant; a card game supporting cross-platform play on PC and smart phones, Legends of Runeterra; and a licensed mobile RPG, CODE:D Blood. Valorant was the most watched game globally on Twitch during the second quarter, reflecting the game’s instant appeal to immersive action game players.

Digital Content

Our fee-based VAS subscriptions increased 20% year-on-year to 203 million, primarily due to growth in video and music content subscriptions. Video subscriptions increased 18% year-on-year to 114 million, driven by self-commissioned Chinese anime and drama series, such as The Land of Warriors Season 3 (《斗罗大陆第三季》), Candle in the Tomb: The Lost Caverns (《龙岭迷窟》) and The Romance of Tiger and Rose (《传闻中的陈芊芊》). Sequentially, traffic for long-form video sites in China, including Tencent Video, declined due to work-from-office behavior and delayed releases of certain high-profile variety shows and drama series. However, Tencent Video’s traffic has increased subsequent to the quarter end, driven by popular drama series such as Nothing But Thirty (《三十而已》), which we believe reflects the underlying resilience of our video platform. Music subscriptions rose 52% year-on-year to 47 million as Tencent Music increased the scope of the paid music library.

Online Advertising

Continued strength in social and others advertising contributed to the year-on-year revenue growth for

our online advertising business. Sequentially, our online advertising revenue grew at a slower-than-seasonal rate as the games and Internet services sectors, which had ramped up advertising aggressively during the first quarter of 2020 due to work-from-home behavior, reduced their spending to more normal levels. However, our advertiser industry breadth diversified in the second quarter of 2020 as categories such as eCommerce and education spent heavily for the 618 promotional campaigns and summer courses, while categories such as automobile and consumer electronics brands increased their spending as consumption recovered.

To reinforce our long-term competitiveness in performance advertising, we launched an integrated advertising platform in July, where advertisers can more efficiently place advertisements across all of our inventories, including our mobile advertising network. This new platform will also enhance bidding efficiency and provide smarter targeting for advertisers.

For social and others advertising, Weixin properties, particularly Moments, saw rapid advertising impressions growth, while our mobile advertising network experienced higher eCPMs as video advertisements' revenue contribution increased from a single digit percentage in the second quarter of 2019 to over 40% in the second quarter this year. We believe the Weixin ecosystem is redefining China's online advertising by enabling advertisers to sustain relationships with their users in their own private domains, such as Official Accounts and Mini Programs, with the result that our advertisers are effectively investing in long-term and loyal customer relationships, rather than just purchasing one-time transactions.

As for media advertising, revenue declined sharply year-on-year due to weak demand from brand advertisers and the delayed production and release of certain variety shows and drama series, some of which we expect to release in the second half of 2020.

FinTech

Our commercial payment and wealth management businesses grew their users and business scale, driving FinTech revenue up year-on-year and quarter-on-quarter. Offline merchants, especially SMEs increasingly adopted our payment services and business management tools, as they sought to digitally upgrade their businesses to access customers and settle transactions via mobile phones. During the quarter, merchant demand for our payment solutions stepped up, especially from categories such as retail and restaurants. As a result, the number of average daily transactions and value per transaction for our commercial payments both grew year-on-year.

For our wealth management business, the aggregated customer assets and the number of active customers increased rapidly year-on-year as more customers appreciated the convenience of managing their cash through our secure and carefully-curated platform.

Cloud and Other Business Services

Increased cloud services usage by Internet companies and the public sector contributed to the year-on-year and sequential revenue growth of our cloud and other business services. Due to the lingering impact from COVID-19, offline project deployment has not fully resumed in the second quarter, but we signed major contracts in the financial and public sectors, while expanding our presence in emerging verticals such as medical, education, and meetings and exhibitions, to help customers in their digital transformation. On technology and infrastructure, we are adopting custom-made equipment, as well as building and expanding our own hyperscale data centres to enhance the performance and optimise the cost of our cloud services for the long run.

For other detailed disclosure, please refer to our website <https://www.tencent.com/en-us/investors.html>, 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 communication and social platforms, Weixin and QQ, connect users with each other and with digital content and services, both online and offline, making their lives more convenient. Our targeted advertising platform helps advertisers reach out to hundreds of millions of consumers in China. Our FinTech and business services support our partners' business growth and assist their digital upgrade.

Tencent invests heavily in talent and technological innovation, actively promoting the development of the Internet industry. Tencent was founded in Shenzhen, China, in 1998. Shares of Tencent (00700.HK) are listed on the Main Board of the Stock Exchange of Hong Kong.

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Non-IFRS Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain additional non-IFRS 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-IFRS 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-IFRS financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-IFRS 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-IFRS adjustments include relevant non-IFRS adjustments for the Group's major associates based on available published financials of the relevant major 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 lot 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	
	2Q2020	2Q2019	2Q2020	1Q2020
Revenues	114,883	88,821	114,883	108,065
VAS	65,002	48,080	65,002	62,429
FinTech and Business Services	29,862	22,888	29,862	26,475
Online Advertising	18,552	16,409	18,552	17,713
Others	1,467	1,444	1,467	1,448
Cost of revenues	(61,673)	(49,695)	(61,673)	(55,271)
Gross profit	53,210	39,126	53,210	52,794
	<i>Gross margin</i>	46%	44%	49%
Interest income	1,749	1,652	1,749	1,636
Other gains, net	8,607	4,038	8,607	4,037
Selling and marketing expenses	(7,756)	(4,718)	(7,756)	(7,049)
General and administrative expenses	(16,499)	(12,577)	(16,499)	(14,158)
Operating profit	39,311	27,521	39,311	37,260
	<i>Operating margin</i>	34%	31%	34%
Finance costs, net	(2,005)	(1,982)	(2,005)	(1,684)
Share of (loss)/profit of associates and joint ventures	(295)	2,370	(295)	(281)
Profit before income tax	37,011	27,909	37,011	35,295
Income tax expense	(4,557)	(3,225)	(4,557)	(5,892)
Profit for the period	32,454	24,684	32,454	29,403
	<i>Net margin</i>	28%	28%	27%
Attributable to:				
Equity holders of the Company	33,107	24,136	33,107	28,896
Non-controlling interests	(653)	548	(653)	507
Non-IFRS profit attributable to equity holders of the Company	30,153	23,525	30,153	27,079
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)				
- basic	3.491	2.550	3.491	3.049
- diluted	3.437	2.520	3.437	2.999

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

RMB in million, unless specified

	Unaudited	
	2Q2020	2Q2019
Profit for the period	32,454	24,684
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income/(loss) of associates and joint ventures	159	(2)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	(2)	-
Currency translation differences	2,358	3,059
Other fair value losses	(687)	(1,388)
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Net gains from changes in fair value of financial assets at fair value through other comprehensive income	56,797	2,582
Other fair value gains/(losses)	102	(70)
	58,727	4,181
Total comprehensive income for the period	91,181	28,865
Attributable to:		
Equity holders of the Company	89,242	28,080
Non-controlling interests	1,939	785

OTHER FINANCIAL INFORMATION

RMB in million, unless specified

	Unaudited		
	2Q2020	1Q2020	2Q2019
EBITDA (a)	40,525	42,228	32,649
Adjusted EBITDA (a)	43,742	45,190	35,102
Adjusted EBITDA margin (b)	38%	42%	40%
Interest and related expenses	1,822	2,006	1,757
Net cash/(debt)	7,212	(5,716)	(15,766)
Capital expenditures (d)	9,466	6,151	4,362

Note:

- (a) EBITDA is calculated as operating profit minus interest income and other gains/losses, net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, and amortisation of intangible assets. Adjusted EBITDA is calculated as EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net cash / (debt) represents period end balance and is calculated as cash and cash equivalents, plus 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, investment properties, land use rights and intangible assets (excluding video and music content, game licences and other content).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB in million, unless specified

	Unaudited	Audited
	30-Jun-20	31-Dec-19
ASSETS		
Non-current assets		
Property, plant and equipment	52,565	46,824
Land use rights	15,822	15,609
Right-of-use assets	10,622	10,847
Construction in progress	5,217	3,935
Investment properties	635	855
Intangible assets	135,260	128,860
Investments in associates	224,753	213,614
Investments in joint ventures	7,053	8,280
Financial assets at fair value through profit or loss	162,391	128,822
Financial assets at fair value through other comprehensive income	139,021	81,721
Prepayments, deposits and other assets	22,588	23,442
Deferred income tax assets	20,974	18,209
Term deposits	21,210	19,000
	818,111	700,018
Current assets		
Inventories	988	718
Accounts receivable	40,384	35,839
Prepayments, deposits and other assets	36,233	27,840
Other financial assets	1,585	375
Financial assets at fair value through profit or loss	6,327	7,114
Term deposits	79,920	46,911
Restricted cash	2,278	2,180
Cash and cash equivalents	173,718	132,991
	341,433	253,968
Total assets	1,159,544	953,986

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

RMB in million, unless specified

	<u>Unaudited</u>	<u>Audited</u>
	<u>30-Jun-20</u>	<u>31-Dec-19</u>
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Share premium	41,701	35,271
Shares held for share award schemes	(3,959)	(4,002)
Other reserves	61,056	16,786
Retained earnings	436,611	384,651
	<u>535,409</u>	<u>432,706</u>
Non-controlling interests	<u>70,864</u>	<u>56,118</u>
Total equity	<u>606,273</u>	<u>488,824</u>
LIABILITIES		
Non-current liabilities		
Borrowings	131,988	104,257
Notes payable	126,785	83,327
Long-term payables	4,675	3,577
Other financial liabilities	7,016	5,242
Deferred income tax liabilities	13,434	12,841
Lease liabilities	8,143	8,428
Deferred revenue	6,638	7,334
	<u>298,679</u>	<u>225,006</u>
Current liabilities		
Accounts payable	86,433	80,690
Other payables and accruals	43,675	45,174
Borrowings	15,101	22,695
Notes payable	-	10,534
Current income tax liabilities	10,813	9,733
Other tax liabilities	1,133	1,245
Other financial liabilities	5,746	5,857
Lease liabilities	3,474	3,279
Deferred revenue	88,217	60,949
	<u>254,592</u>	<u>240,156</u>
Total liabilities	<u>553,271</u>	<u>465,162</u>
Total equity and liabilities	<u>1,159,544</u>	<u>953,986</u>

RECONCILIATIONS OF IFRS TO NON-IFRS RESULTS

RMB in million, unless specified	As reported	Adjustments					Non-IFRS
		Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment Provision/(reversals) (d)	Income tax effects (e)	
Unaudited three months ended June 30, 2020							
Operating profit	39,311	3,507	(14,672)	870	8,613	-	37,629
Profit for the period	32,454	4,225	(16,108)	1,886	9,268	(505)	31,220
Profit attributable to equity holders	33,107	4,019	(15,436)	1,503	7,310	(350)	30,153
Operating margin	34%						33%
Net margin	28%						27%
Unaudited three months ended March 31, 2020							
Operating profit	37,260	3,435	(5,272)	639	(487)	-	35,575
Profit for the period	29,403	4,198	(6,992)	1,572	(18)	(179)	27,984
Profit attributable to equity holders	28,896	3,957	(6,976)	1,338	(18)	(118)	27,079
Operating margin	34%						33%
Net margin	27%						26%
Unaudited three months ended June 30, 2019							
Operating profit	27,521	2,453	(4,950)	118	2,139	-	27,281
Profit for the period	24,684	2,373	(6,523)	1,486	2,492	(321)	24,191
Profit attributable to equity holders	24,136	2,296	(6,522)	1,432	2,492	(309)	23,525
Operating margin	31%						31%
Net margin	28%						27%

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, fair value changes arising from investee companies, and other expenses in relation to equity transactions of investee companies
- (c) Amortisation of intangible assets resulting from acquisitions
- (d) Impairment provisions/(reversals) for associates, joint ventures, goodwill and intangible assets arising from acquisitions
- (e) Income tax effects of non-IFRS adjustments