

For Immediate Release

TENCENT ANNOUNCES 2006 FIRST QUARTER RESULTS

Hong Kong, May 24, 2006 – Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 700), a leading provider of Internet and mobile and telecommunications value-added services in China, today announced the unaudited results for the first quarter of 2006.

Highlights

- Total revenue was RMB645.3 million (USD 80.3 million), an increase of 50.3% QoQ or 114.8% over the same period last year.
- Revenue from Internet Value-added Services (IVAS) was RMB436.5 million (USD 54.3 million), an increase of 65.9% QoQ, or 192.9% over the same period last year.
- Revenue from Mobile and Telecom Value-added Services (MVAS) was RMB163.4 million (USD 20.3 million), an increase of 30.4% QoQ or 21.7% over the same period last year.
- Revenue from Online Advertising was RMB41.8 million (USD 5.2 million), an increase of 10.9% QoQ, or 173.1% over the same period last year.
- Peak simultaneous online user accounts (PCU) for Instant Messaging (IM) services reached 19.6 million. Estimated PCU after removing idle logins was 19.3 million, represented a 15% increase QoQ. PCU of QQ Game portal (including mini casual games and advanced casual games) broke a new record of 2.8 million, an increase of 37.9% QoQ.
- Total registered IM user accounts climbed to 531.5 million, representing a 7.9% growth QoQ. Active IM user accounts increased 9.2% QoQ to 220.5 million.
- IVAS paying subscriptions were 13.5 million, a 27.4% increase QoQ.
- MVAS paying subscriptions were 9.5 million, a 17.3% increase QoQ.

*note: USD1 = RMB8.041

Chairman and CEO of Tencent, Mr. Ma Huateng, attributed the record revenue and earnings to the organic growth of our Internet value-added services, such as avatars and online games, and promotions during the Chinese New Year holiday season. Despite the strong results, it is important to recognize that the Internet market in China is nascent and extremely competitive, therefore fluctuations in our results may occur from time to time, he cautioned.

“This past quarter was exceptionally rewarding for us, as the investments we made during the past years began to bear fruit. As our total revenue grew, the operating leverage inherent in our business model also led to an increase in our margins. Even excluding the seasonal factors, the significant growth in our business confirms the value of our platforms and the long-term approach we take in building our business. We will be even more focused on investing in our platforms to further develop their long-term competitiveness,” he said.

Business Highlights

IVAS accounted for 67.6% of the total revenues, compared with 61.2% in the previous quarter. The 65.9% increase QoQ in segment revenue reflected the significant growth from online games, driven by growth in QQ Fantasy, QQ Game and QQ Tang. The increase also reflected the continuing success of our online identity and community business, including QQ Show, QQ Pet, and Qzone. There is also strong seasonal impact brought by special promotions we did during the Chinese New Year holiday and the winter break.

MVAS made up 25.3% of total revenues, compared with 29.2% in the previous quarter. The 30.4% increase QoQ in segment revenue reflected our effort to improving product features and functionalities as well as expanding our marketing channel. Revenues from Joymax, which we acquired in January 2006, also contributed to the increase.

Online Advertising accounted for 6.5% of total revenues, compared with 8.8% in the previous quarter. The segment revenue increased by 10.9% QoQ, even though the first quarter of the year is normally a low season, mainly due to larger orders from new customers and growth of advertising on QQ.com portal as a result of increased volume through agency sales. Advertising revenues relating to internet search continued to grow at a healthy pace.

Financials

Gross profit was RMB469.6 million (USD 58.4 million), an increase of 62.4% QoQ, or 136.5% from the same period last year. Gross margin increased to 72.8% from 67.4% in the previous quarter. Operating profit was RMB281.6 million (USD 35.0 million), an increase of 94.3% QoQ, or 172.3% over the same period last year. Operating margin increased to 43.6% from 33.8% in the previous quarter. Net profit was RMB249.7 million (USD 31.1 million), an increase of 101.9% QoQ and an increase of 157.5% over the same period last year. Net margin increased to 38.7% from 28.8% in the previous quarter. Our margins improved significantly due to the operating leverage in the business.

Share-based compensation was RMB 14.4 million (USD 1.8 million) for this quarter in comparison to RMB 18.6 million (USD 2.3 million) in the previous quarter.

Foreign exchange loss, as a result of Renminbi appreciation, was RMB 10.1 million (USD 1.3 million) for the quarter in comparison to RMB 4.8 million (USD 0.6 million) in the previous quarter.

Outlook

In our core IM platform, apart from adding new features and enhancing functionalities to services, we will continue to enhance the security of service and eliminating spam messages although this may have a short-term negative impact on PCU records.

In IVAS, we seek to further improve system performance and product experience for new products such as Qzone and QQ Pet. For online games, we are working on an expansion pack for QQ Fantasy, and preparing for the mid-year launch of a new licensed advanced casual game, R2Beat. We will continue to develop QQ Game, which is currently the largest mini causal games portal in China, with a long term view to balance between the growing the user base and monetization.

Our MVAS benefited from the improvement in product development, the expansion of distribution channels as well as the acquisition of Joymax. We believe the sector still pose significant challenges in the form of intense competition and possible regulatory measures. We remain dedicated to improving our competitiveness and will work closely with the operators to foster a healthy industry environment for the long term.

The Online Advertising market in China is still at a nascent stage. We aim to capitalize on the significant traffic and secular growth trend by building up our sales team, expanding relationship with key advertisers and agencies, as well as through product innovation.

Share Repurchase Program

At the 2005 annual general meeting (AGM) held on April 27, 2005, shareholders had granted a general mandate to repurchase a maximum of 177,217,560 shares of the Company. From the 2005 AGM to May 23, 2006, approximately USD45.2 million had been used to repurchase a total of 32.6 million shares on market.

At the 2006 AGM held on May 24, 2006, shareholders granted us a general mandate to repurchase up to 10% of the issued share capital of the company as of the date of the 2006 AGM. With a view to enhance shareholders' value, we intend to exercise the current mandate to repurchase shares for an amount up to USD30 million pursuant to the terms thereof and in accordance with the Listing Rules.

About Tencent

Tencent Holdings Limited is a leading provider of Internet and mobile & telecommunications value-added services in China. Tencent serves the largest instant messaging (IM) community in China as measured by registered IM user accounts. The Company's IM platform allows users to communicate in real-time across the Internet, and mobile and fixed line telecommunications networks using various terminal devices.

Tencent operates three principal lines of business: Internet value-added services, mobile and telecommunications value-added services and online advertising.

Shares of Tencent Holdings Limited are traded on the Main Board of The Stock Exchange of Hong Kong Limited, under the stock code 700. For more information, please visit our corporate website at www.tencent.com.

Tencent currently offers three IM products – QQ, TM and RTX. QQ is a personal IM communication product which offers a variety of entertainment and community features. TM is for professional IM communications in a business environment. RTX offers IM solution that allows an enterprise to operate and manage its own internal IM network.

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Important note:

This press release contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. 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 are a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents.

Financial Highlights

In '000 RMB (unless otherwise stated)

CONDENSED CONSOLIDATED INCOME SHEET

	Unaudited		Unaudited	
	1Q2006	4Q2005	1Q2006	1Q2005
Revenues	645,305	429,430	645,305	300,471
Internet VAS	436,538	263,075	436,538	149,064
Mobile & Telecom VAS	163,426	125,342	163,426	134,271
Online Advertising	41,770	37,680	41,770	15,293
Others	3,571	3,333	3,571	1,843
COPS	(175,693)	(140,174)	(175,693)	(101,928)
Gross profit	469,612	289,256	469,612	198,543
<i>Gross margin</i>	72.8%	67.4%	72.8%	66.1%
Other gains, net	21,536	30,095	21,536	11,905
S&M expenses	(79,748)	(62,010)	(79,748)	(38,513)
G&A expenses	(129,807)	(112,381)	(129,807)	(68,526)
Operating profit	281,593	144,960	281,593	103,409
<i>Operating margin</i>	43.6%	33.8%	43.6%	34.4%
Foreign exchange loss	(10,095)	(4,787)	(10,095)	(115)
Profit before income tax	271,498	140,173	271,498	103,294
Income tax expenses	(21,798)	(16,493)	(21,798)	(6,340)
Profit for the period	249,700	123,680	249,700	96,954
<i>Net margin</i>	38.7%	28.8%	38.7%	32.3%
Earnings per share				
- basic (RMB)	0.141	0.070	0.141	0.055
- diluted (RMB)	0.137	0.068	0.137	0.054

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2006 AND 31 DECEMBER 2005**

	Unaudited 31 March 2006 RMB'000	Audited 31 December 2005 RMB'000
ASSETS		
Non-current assets		
Fixed assets	443,466	365,047
Intangible assets	215,753	21,432
Held-to-maturity investments	241,386	244,581
Deferred tax assets	98,641	96,362
Available-for-sale investments	36,073	36,073
	<u>1,035,319</u>	<u>763,495</u>
Current assets		
Inventories	1,615	2,647
Accounts receivable	307,139	222,754
Prepayments, deposits and other receivables	52,272	32,570
Financial assets held for trading	335,487	383,887
Term deposits with initial term of over three months	511,587	445,725
Cash and cash equivalents	1,679,200	1,576,044
	<u>2,887,300</u>	<u>2,663,627</u>
Total Assets	<u><u>3,922,619</u></u>	<u><u>3,427,122</u></u>
EQUITY		
Shareholders' equity		
Share capital	192	192
Share premium	1,592,623	1,666,044
Share-based compensation reserve	54,538	40,109
Other reserves	80,925	66,609
Retained earnings	1,390,843	1,155,459
	<u>3,119,121</u>	<u>2,928,413</u>
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	13,421	810
Long term payable	104,065	-
	<u>117,486</u>	<u>810</u>
Current liabilities		
Accounts payable	51,962	25,555
Other payables and accruals	273,312	196,187
Current income tax liabilities	48,432	28,766
Other tax liabilities	38,493	13,256
Deferred revenue	273,813	234,135
	<u>686,012</u>	<u>497,899</u>
Total Liabilities	<u>803,498</u>	<u>498,709</u>
Total Equity and Liabilities	<u><u>3,922,619</u></u>	<u><u>3,427,122</u></u>