

**For Immediate Release**

**TENCENT ANNOUNCES 2007 FIRST QUARTER RESULTS**

**Hong Kong, May 16, 2007** – Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 700), a leading provider of Internet and mobile & telecommunications value-added services in China, today announced the unaudited results for the first quarter ended March 31, 2007.

**Highlights**

- Total revenues were RMB773.1 million (USD100.0 million), an increase of 8.4% over the fourth quarter of 2006 (“QoQ”) or an increase of 19.8% over the first quarter of 2006 (“YoY”)
- Revenues from Internet value-added services (IVAS) were RMB501.8 million (USD64.9 million), an increase of 14.9% QoQ or an increase of 14.9% YoY
- Revenues from Mobile & telecommunications value-added services (MVAS) were RMB196.5 million (USD25.4 million), an increase of 1.8% QoQ or an increase of 20.3% YoY
- Revenues from Online advertising were RMB74.1 million (USD9.6 million), a decrease of 9.1% QoQ or an increase of 77.3% YoY
- Gross profit was RMB535.5 million (USD69.2 million), an increase of 11.7% QoQ or an increase of 14.0% YoY
- Operating profit was RMB327.4 million (USD42.3 million), an increase of 34.0% QoQ or an increase of 16.3% YoY
- Net profit was RMB290.2 million (USD37.5 million), an increase of 10.1% QoQ or an increase of 16.2% YoY
- Key platform statistics:
  - Total registered Instant Messaging (“IM”) user accounts increased to 597.9 million, representing a 3.0% growth QoQ
  - Peak simultaneous online user accounts for IM services recorded over 28.5 million, a growth of 16.3% QoQ
  - Active IM user accounts increased 9.1% QoQ to 253.7 million
  - Peak simultaneous online user accounts of QQ Game portal (for mini casual games only) was 3.16 million, an increase of 16.6% QoQ
  - IVAS paying subscriptions were 15.0 million, an increase of 20.0% QoQ
  - MVAS paying subscriptions were 10.2 million, an increase of 3.0% QoQ

\*Figures stated in USD are based on USD1 to RMB7.7342

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “In the first quarter of 2007, we benefited from strong seasonality in both user numbers and consumption of our Internet value-added services due to Chinese New Year holidays and winter break. During the quarter, we focused on further enhancing our user account security, upgrading our community-oriented IVAS products, and strengthening our online game pipeline. The Company also embarked on a branding program to enhance trade recognition of QQ.com as most-trafficked portal website in China.

“Amid a market filled with both opportunities and challenges, we will continue to build on our long-term competitiveness, including strengthening our online platforms, investing in strategic

research and development, developing a talented team, expanding business networks, and striking a right balance between providing free services to attract users and monetizing our growing user bases. We have benefited from this strategic approach in the past and believe it will serve the best interest of our users, employees and shareholders over the long-run," added Mr. Ma.

## **Business Highlights**

IVAS revenues increased 14.9% QoQ to RMB501.8 million and represented 64.9% of the total revenues in the first quarter of 2007. The increase reflected the significant growth in revenues from Tencent's online identity and community business, particularly Qzone and QQ Pet, largely due to the seasonal impact of the Chinese New Year holidays and winter break for students. Increased online promotional events and seasonal factors also contributed to the increase in revenues from Premium QQ.

As part of IVAS revenues, the total revenues generated from Online games increased 3.9% QoQ to RMB141.2 million in the first quarter of 2007 due to the same seasonal factors and as the Company completed the system upgrades for QQ Game implemented to improve system performance and user experience. During the implementation of the system upgrades that had been ongoing since the fourth quarter of 2006, its ability to generate revenues from QQ Game was negatively affected.

MVAS revenues increased 1.8% QoQ to RMB196.5 million and represented 25.4% of total revenues in the first quarter of 2007. This increase reflected increased revenues relating to Tencent's communication-based SMS business as a result of increased promotion of its products and services, particularly its mobile chat services offered through China Mobile, after the Company was able to confirm the continuation of cooperative relationship with China Mobile for such services. Specifically, in December 2006, Tencent entered into a partnership with China Mobile to develop a platform named "Fetion QQ" that will enable interconnection between China Mobile's Fetion handset users and Tencent's QQ subscribers, which is expected to be introduced in the middle of 2007. The increase was partially offset by decreases in revenues relating to the Company's non-subscription content-based SMS business due to intense competition and increased regulatory restrictions.

Online advertising revenues decreased 9.1% QoQ to RMB74.1 million and represented 9.6% of total revenues in the first quarter of 2007, mainly reflecting the seasonal impact of the first quarter of each year being a weaker quarter for advertising.

## **Financials**

Gross profit for the first quarter of 2007 was RMB535.5 million, an increase of 11.7% QoQ or an increase of 14.0% YoY. Gross margin was 69.3% compared with 67.2% in the fourth quarter of 2006. Operating profit for the first quarter was RMB327.4 million, an increase of 34.0% QoQ or an increase of 16.3% YoY. Operating margin increased to 42.3% compared with 34.2% in the previous quarter. Net profit for the first quarter was RMB290.2 million, an increase of 10.1% QoQ or an increase of 16.2% YOY. Net margin was 37.5% compared with 37.0% in the previous quarter. Basic earnings per share were RMB0.164. Diluted earnings per share were RMB0.158.

Share-based compensation charge for this quarter was RMB18.8 million as compared with RMB23.3

million for the previous quarter. Foreign exchange loss for this quarter, as a result of Renminbi appreciation, was RMB12.0 million as compared with RMB14.3 million for the previous quarter.

## **Outlook**

In the first quarter of 2007, Tencent benefited from strong seasonality in both user numbers and consumption of Internet value-added services due to Chinese New Year holidays and school winter break. While the second quarter will present a weaker seasonality in general, the Company believes the trend of growth in the Internet market remains intact on a long term basis.

Regarding IM platform, Tencent has continued its focus on enhancing account security and fighting against spam messages. Since the Company stepped up efforts in these two areas last year, it has achieved favorable results in reducing account thefts, virtual item thefts and spam messages in its IM platform. However, Tencent has also seen malicious users coming up with new variations of their fraudulent activities in response. As a result, it is very important for the Company to continue upgrading its security and anti-spamming programs in order to be effective. On the other hand, Tencent has also been working to enhance the basic functionalities of its IM service, including enhancing the performance of the client software, increasing the speed for users to send files, and integrating better email functions with the IM service.

Regarding QQ.com portal platform, Tencent has continued its leadership as number one portal in China in terms of page view, according to Alexa.com. The Company has also embarked on an ambitious program to enhance the recognition and profile of QQ.com among users and businesses. This program includes running an advertising campaign to target business people, signing up as the Internet media partner of high profile sports, business and entertainment events, and investing in high quality content to enrich the various channels in QQ.com. Through this program, the Company aims to enhance QQ.com's positioning as the leading portal in China and generate more advertising revenue in the future.

In community oriented Internet value-added services, Tencent has focused on enhancing the performance and functionalities of Qzone, which has grown to become a significant platform from both usage and monetization perspectives. In addition, the Company has been working on an upgrade for QQ Show as the product has been in the market for quite some time and has experienced weakness in revenue recently. The Company is also working on upgrades on QQ Pet to continue to add fun elements to this innovative product.

In the area of game-related Internet value-added services, Tencent has benefited from favorable seasonality in the first quarter. In particular, QQ Game registered significant growth in its peak concurrent users and increase in revenue. However, the Company expects QQ Game to see some

negative seasonality in the second quarter. In MMOG, QQ Fantasy experienced revenue decline because of rising competition from games that are free to play but charge by items as QQ Fantasy itself is a game that charges by playing time. The Company is working on upgrades of QQ Fantasy and is also doing tests around selling items in addition to collecting time-based charges. Looking forward, Tencent is planning to launch its self-developed light MMOG QQ San Guo in the second half of 2007 to strengthen its product portfolio in this area. In advanced casual games, R2Beat benefited from the strong holiday season in the first quarter while QQ Tang saw decline because it is a more mature product. The Company is currently planning to launch two advanced casual games in the second half of this year, subject to timeliness of the development works. Tencent is also working continuously to strengthen its pipeline of online games through self-development, licensing, and partnership with third-party studios.

In mobile and telecommunication value-added services, the industry environment remains challenging, particularly for competitive content-based services. Tencent has been able to maintain relative stability in its business through enhancing user experience and product differentiation. The Company has been focused on the development of Fetion QQ in partnership with China Mobile, which is tracking as planned. Tencent is also improving its execution in order to support and comply with more stringent regulations in the industry, which it believes will benefit the industry over the long run. In addition, the Company continues to develop wireless Internet applications, such as free WAP portal, in anticipation of 3G.

In online advertising business, Tencent experienced a sluggish quarter due to the generally weak seasonality associated with the first quarter. However, as Tencent continues to strengthen its online advertising team and its relationship with leading advertisers and advertising agencies, the Company believes it can leverage its strong collection of integrated online platforms to deliver above-industry growth for the full year.

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## About Tencent

Tencent aims to enrich the interactive online experience of Internet users in China by providing a comprehensive range of Internet and wireless value-added services. Through its various online platforms, including Instant Messaging QQ, web portal QQ.com, QQ Game portal, multi-media blog service Qzone and wireless portal, Tencent services the largest online community in China and fulfills the user's needs for communication, information, entertainment and e-Commerce on the Internet.

Tencent currently 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 stock code 700. For more information, please visit [www.tencent.com/ir](http://www.tencent.com/ir).

### For enquiries, please contact:

Catherine Chan Tel: (86) 755 86013388 ext 8369 or (852) 21795122 Email: [cchan@tencent.com](mailto:cchan@tencent.com)

Johnny Shen Tel: (86) 755 86013388 ext 5423 or (852) 21795122 Email: [jshen@tencent.com](mailto:jshen@tencent.com)

### 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.*

**CONDENSED CONSOLIDATED INCOME STATEMENT**

In RMB '000 (unless otherwise stated)

|                                | Unaudited        |                  | Unaudited        |                  |
|--------------------------------|------------------|------------------|------------------|------------------|
|                                | 1Q2007           | 4Q2006           | 1Q2007           | 1Q2006           |
| <b>Revenues</b>                | <b>773,061</b>   | <b>713,225</b>   | <b>773,061</b>   | <b>645,305</b>   |
| Internet VAS                   | 501,787          | 436,527          | 501,787          | 436,538          |
| Mobile & Telecom VAS           | 196,544          | 193,075          | 196,544          | 163,426          |
| Online Advertising             | 74,068           | 81,525           | 74,068           | 41,770           |
| Others                         | 662              | 2,098            | 662              | 3,571            |
| <b>Cost of revenues</b>        | <b>(237,519)</b> | <b>(233,697)</b> | <b>(237,519)</b> | <b>(175,693)</b> |
| <b>Gross profit</b>            | <b>535,542</b>   | <b>479,528</b>   | <b>535,542</b>   | <b>469,612</b>   |
| <b>Gross margin</b>            | <b>69.3%</b>     | <b>67.2%</b>     | <b>69.3%</b>     | <b>72.8%</b>     |
| Other gains, net               | 34,013           | 18,360           | 34,013           | 21,536           |
| S&M expenses                   | (70,210)         | (73,430)         | (70,210)         | (79,748)         |
| G&A expenses                   | (171,977)        | (180,229)        | (171,977)        | (129,807)        |
| <b>Operating profit</b>        | <b>327,368</b>   | <b>244,229</b>   | <b>327,368</b>   | <b>281,593</b>   |
| <b>Operating margin</b>        | <b>42.3%</b>     | <b>34.2%</b>     | <b>42.3%</b>     | <b>43.6%</b>     |
| Finance cost, net              | (12,505)         | (14,206)         | (12,505)         | (10,095)         |
| Profit before income tax       | 314,863          | 230,023          | 314,863          | 271,498          |
| Income tax (expenses)/ benefit | (24,694)         | 33,600           | (24,694)         | (21,798)         |
| <b>Profit for the period</b>   | <b>290,169</b>   | <b>263,623</b>   | <b>290,169</b>   | <b>249,700</b>   |
| <b>Net margin</b>              | <b>37.5%</b>     | <b>37.0%</b>     | <b>37.5%</b>     | <b>38.7%</b>     |
| <b>Earnings per share</b>      |                  |                  |                  |                  |
| - basic (RMB)                  | 0.164            | 0.149            | 0.164            | 0.141            |
| - diluted (RMB)                | 0.158            | 0.145            | 0.158            | 0.137            |

**CONDENSED CONSOLIDATED BALANCE SHEET**

In RMB '000 (unless otherwise stated)

|  | Unaudited<br>31 March<br>2007 | Audited<br>31 December<br>2006 |
|--|-------------------------------|--------------------------------|
| <b>ASSETS</b>  |                               |                                |
| <b>Non-current assets</b>                            |                               |                                |
| Fixed assets   | 617,191                       | 549,109                        |
| Construction in progress                             | 17,916                        | 14,462                         |
| Leasehold land and land use rights                   | 9,967                         | 10,018                         |
| Intangible assets                                    | 173,606                       | 155,587                        |
| Held-to-maturity investments                         | 77,342                        | -                              |
| Deferred income tax assets                           | 123,642                       | 130,522                        |
| Available-for-sale financial assets                  | 56,440                        | 56,440                         |
|  | <u>1,076,104</u>              | <u>916,138</u>                 |
| <b>Current assets</b>                                |                               |                                |
| Inventories  | 2,426                         | 2,466                          |
| Accounts receivable                                  | 456,633                       | 399,337                        |
| Prepayments, deposits and other receivables          | 105,204                       | 113,768                        |
| Financial assets held for trading                    | 294,018                       | 195,907                        |
| Held-to-maturity investments                         | 232,026                       | 234,261                        |
| Term deposits with initial term of over three months | 1,092,633                     | 944,375                        |
| Cash and cash equivalents                            | 1,690,570                     | 1,844,320                      |
|  | <u>3,873,510</u>              | <u>3,734,434</u>               |
| <b>Total Assets</b>                                  | <u>4,949,614</u>              | <u>4,650,572</u>               |
| <b>EQUITY</b>  |                               |                                |
| <b>Shareholders' equity</b>                          |                               |                                |
| Share capital  | 193                           | 192                            |
| Share premium  | 1,480,192                     | 1,459,020                      |
| Share-based compensation reserve                     | 137,068                       | 118,078                        |
| Other reserves                                       | 86,469                        | 80,925                         |
| Retained earnings                                    | 2,344,166                     | 2,059,541                      |
|  | <u>4,048,088</u>              | <u>3,717,756</u>               |
| <b>LIABILITIES</b>                                   |                               |                                |
| <b>Non-current liabilities</b>                       |                               |                                |
| Deferred income tax liabilities                      | 22,782                        | 16,821                         |
| Long term payable                                    | 48,677                        | 48,148                         |
|  | <u>71,459</u>                 | <u>64,969</u>                  |
| <b>Current liabilities</b>                           |                               |                                |
| Accounts payable                                     | 61,222                        | 38,934                         |
| Other payables and accruals                          | 369,906                       | 444,387                        |
| Current income tax liabilities                       | 40,543                        | 47,472                         |
| Other tax liabilities                                | 51,072                        | 17,715                         |
| Deferred revenue                                     | 307,324                       | 319,339                        |
|  | <u>830,067</u>                | <u>867,847</u>                 |
| <b>Total Liabilities</b>                             | <u>901,526</u>                | <u>932,816</u>                 |
| <b>Total Equity and Liabilities</b>                  | <u>4,949,614</u>              | <u>4,650,572</u>               |