

**For Immediate Release**

## **TENCENT ANNOUNCES 2005 FOURTH QUARTER AND ANNUAL RESULTS**

**Hong Kong, March 22, 2006** – 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 fourth quarter of 2005 and audited results for the year ended December 31, 2005.

### ***Highlights of 2005 full year:***

- Total revenues increased 24.7% YoY to RMB1,426.4 million (USD176.8 million).
- Revenue from Internet value-added services (IVAS) increased 79.2% YoY to RMB786.7 million (USD97.5 million).
- Revenues from mobile & telecommunications value-added services (MVAS) decreased 19.3% YoY to RMB517.3 million (USD64.1 million).
- Revenues from online advertising increased 105.9% YoY to RMB112.8 million (USD14.0 million).
- Net profit for the year increased 10.0% YoY to RMB485.4 million (USD60.1 million).
- The board of directors recommended a final dividend of HKD 0.08 per share, subject to the approval of shareholders at the Annual General Meeting to be held on May 24, 2006 and payable on June 7, 2006.

### ***Highlights of the fourth quarter of 2005:***

- Total revenues were RMB429.4 million (USD53.2 million), an increase of 18.4% QoQ and an increase of 36.6% from the same period last year.
- Revenues from IVAS were RMB263.1 million (USD32.6 million), an increase of 28.5% QoQ and an increase of 110.2% from the same period last year.
- Revenues from MVAS were RMB125.3 million (USD15.5 million), an increase of 3.5% QoQ and a decrease of 25.7% from the same period last year.
- Revenues from online advertising were RMB37.7 million (USD4.7 million), an increase of 8.6% QoQ and an increase of 112.4% from the same period last year.
- Net profit was RMB123.7 million (USD15.3 million), an increase of 59.1% QoQ and an increase of 6.3% from the same period last year.
- Peak simultaneous online user accounts (PCU) for Instant Messaging (IM) services reached 18.4 million. Estimated active PCU, excluding “idle logins”, was 16.7 million representing a 5% increase from 15.9 million in the third quarter. Peak simultaneous online users of QQ Game portal (including mini casual games and advanced casual games) broke two million.
- Total registered IM user accounts climbed to 492.6 million, representing a 3.9% growth QoQ. Active IM user accounts increased 9.3% QoQ to 201.9 million.
- IVAS paying subscriptions were 10.6 million, a 5.0% increase QoQ.
- MVAS paying subscriptions were 8.1 million, a 3.6% decrease QoQ.

\*note: USD1 = RMB8.07

Chairman and CEO of Tencent, Mr Ma Huateng, said, "The R&D investment and the successful execution of product strategies have brought significant growth in our Internet value-added services and doubled our online advertising revenue during the last 12 months. We believe Tencent will continue to benefit from these efforts in 2006.

"Although visibility in the wireless sector remains low for us in the near term, we have taken proactive steps to reorganize our wireless operations and manage these challenges by improving product functionalities and user experience. This will in turn strengthen our competitiveness going forward."

With the continued growth of Internet usage in China, Mr. Ma believed online services had potential for further growth and Tencent aimed to be an integrated provider of a broad range of online lifestyle services. "Our aspiration is to address the many facets of QQ users' online lives by helping them to stay in touch with others, by providing useful content, by entertaining them and by enabling them to conduct commercial transactions online," he added.

### **Business Highlights**

In the fourth quarter, with a view to facilitating healthy future growth of its IM platform, Tencent implemented certain measures to reduce idle logins by users and to limit the usage of its platform for "spam" message distribution. As a result, peak simultaneous online user accounts of QQ IM decreased 5.6% QoQ to 18.4 million.

Tencent's IVAS business accounted for 61.2% of the total revenues, compared with 56.4% in the previous quarter. The 28.5% QoQ revenue growth reflected the significant growth in revenues from online games, driven by growth in QQ Game portal, the commercialization of QQ Fantasy in December 2005 and growth in QQ Tang. The increase also reflected the continuing success of its online identity product QQ Pet and community service Qzone.

MVAS business made up 29.2% of Tencent's total revenues, compared with 33.4% in the previous quarter. MVAS revenues increased 3.5% QoQ primarily due to the recovery of its mobile IVR services after Tencent temporarily suspended some IVR services to enhance the functionality of its platform during the third quarter. The increase was partially offset by a slight decrease in revenues from its SMS and MMS services.

Online advertising business accounted for 8.8% of Tencent's total revenues, compared with 9.6% in the previous quarter. The 8.6% sequential growth was mainly attributable to seasonal increases in revenues and increased marketing of its advertising services.

## Financials

Gross profit increased 18.5% QoQ to RMB 289.3 million. Gross margin was 67.4% compared with 67.3% in the third quarter. Operating profit increased 23.6% QoQ to RMB145.0 million. Operating margin increased to 33.8% compared with 32.3% in the previous quarter.

Net profit increased 59.1% QoQ to RMB123.7 million. During the quarter, Tencent recorded a foreign exchange loss of RMB 4.8 million, which was much less than RMB42.4 million recorded in the previous quarter.

## Share Repurchase Program

The Company announced a share buyback program last November to repurchase shares of Tencent up to the equivalent of USD 30 million. To date, the Company has repurchased approximately 22.3 million shares on market for an aggregate consideration of about HK\$197 million (roughly USD 25 million) including all related expenses. The shares repurchased were subsequently cancelled.

With a view to further enhance shareholders' value, the Board passed a further resolution on March 22, 2006 to repurchase the shares of the Company on market for an additional amount up to USD 30 million pursuant to the existing general mandate granted by shareholders at the Annual General Meeting on April 27, 2005 and in accordance with the Listing Rules in Hong Kong.

## Outlook

During 2005, Tencent invested heavily in R&D and launched many new products and services in key business areas. These efforts have helped the Company achieve significant growth in its Internet value-added services and doubled its online advertising revenue during the last 12 months. The Company believes that it is extremely important to keep strengthening its R&D and its pool of talents in order to stay ahead in this attractive yet increasingly competitive market.

For its core IM platform, Tencent aims to better serve its users not only through enhancing the platform's functionalities and security, but also through providing more value-added services that address the many facets of users' online lives, including staying in touch with others, access to content, getting entertained and conducting commercial transactions.

For IVAS, Qzone and QQ Pet have received good initial response from users and have accumulated a sizable user base. Tencent plans to continue upgrading its technical platforms and refining its products accordingly such that it can provide better experiences to its users.

In the online games business, the Company aims to monetize QQ Game Portal's industry leadership by increasing paid subscriptions and game item sales. It also plans to launch more advanced casual games, including both licensed and self-developed ones during the course of 2006. The Company began charging for QQ Fantasy in December 2005 and believes it will increase its online games revenue. After significant investments in online games since 2003, Tencent expects its online games revenue to increase significantly.

For MVAS, while visibility in the industry remains low in the near term, Tencent is making proactive steps to manage these challenges by cooperating closely with telecom operators and strengthening its own competitiveness. To prepare for the advent of 3G, the Company is also customizing its Internet-based services, such as networked mini-casual games, music and online community services, for wireless platforms.

The Company believes it will benefit from the secular growth trend of the online advertising industry in China. It aims to grow its advertising revenue by developing better advertising solutions to leverage its unique suite of online properties, investing in the branding of QQ.com, building a strong sales team, and cultivating strong relationships with leading advertisers and media agencies in China.

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### **About Tencent Holdings Limited**

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](http://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)

	Unaudited		Audited	
	4Q2005	3Q2005	2005	2004 (as restated)
<b>Revenues</b>	<b>429,430</b>	<b>362,829</b>	<b>1,426,395</b>	<b>1,143,533</b>
Internet VAS	263,075	204,658	786,680	439,041
Mobile & Telecom VAS	125,342	121,154	517,265	641,190
Online Advertising	37,680	34,683	112,826	54,801
Others	3,333	2,334	9,624	8,501
<b>COPS</b>	<b>(140,174)</b>	<b>(118,804)</b>	<b>(469,869)</b>	<b>(418,125)</b>
<b>Gross profit</b>	<b>289,256</b>	<b>244,025</b>	<b>956,526</b>	<b>725,408</b>
<b>Gross margin</b>	<b>67.4%</b>	<b>67.3%</b>	<b>67.1%</b>	<b>63.4%</b>
Other gains, net	30,095	15,997	73,145	25,915
S&M expenses	(62,010)	(51,603)	(197,627)	(109,517)
G&A expenses	(112,381)	(91,182)	(347,685)	(173,110)
<b>Operating profit</b>	<b>144,960</b>	<b>117,237</b>	<b>484,359</b>	<b>468,696</b>
<b>Operating margin</b>	<b>33.8%</b>	<b>32.3%</b>	<b>34.0%</b>	<b>41.0%</b>
Foreign exchange loss	(4,787)	(42,351)	(47,304)	(5,043)
Profit before income tax	140,173	74,886	437,055	463,653
Income tax (expenses)/ benefit	(16,493)	2,869	48,307	(22,534)
<b>Profit for the period</b>	<b>123,680</b>	<b>77,755</b>	<b>485,362</b>	<b>441,119</b>
<b>Net margin</b>	<b>28.8%</b>	<b>21.4%</b>	<b>34.0%</b>	<b>38.6%</b>
<b>Earnings per share</b>				
- basic (RMB)	0.070	0.044	0.274	0.290
- diluted (RMB)	0.068	0.043	0.267	0.284

**CONDENSED CONSOLIDATED BALANCE SHEETS  
YEAR ENDED 31 DECEMBER 2005**

	Audited	
	As at 31 December	
	2005	2004
		(as restated)
	RMB'000	RMB'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	365,047	142,080
Intangible assets	21,432	-
Held-to-maturity investments	244,581	167,374
Deferred income tax assets	96,362	-
Available-for-sale investments	36,073	-
	<u>763,495</u>	<u>309,454</u>
<b>Current assets</b>		
Inventories	2,647	-
Accounts receivable	222,754	192,725
Prepayments, deposits and other receivables	32,570	50,347
Financial assets held for trading	383,887	666,900
Term deposits with original maturities of over three months	445,725	784,054
Cash and cash equivalents	1,576,044	859,841
	<u>2,663,627</u>	<u>2,553,867</u>
<b>Total Assets</b>	<u><u>3,427,122</u></u>	<u><u>2,863,321</u></u>
<b>EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital	192	192
Share premium	1,666,044	1,777,721
Share-based compensation reserve	40,109	5,583
Other reserves	66,609	52,442
Retained earnings	1,155,459	816,300
	<u>2,928,413</u>	<u>2,652,238</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	810	-
<b>Current liabilities</b>		
Accounts payable	25,555	2,506
Other payables and accruals	196,187	79,912
Dividends payable	-	145
Current income tax liabilities	28,766	5,648
Other tax liabilities	13,256	59,650
Deferred revenue	234,135	63,222
	<u>497,899</u>	<u>211,083</u>
<b>Total Liabilities</b>	<u>498,709</u>	<u>211,083</u>
<b>Total Equity and Liabilities</b>	<u><u>3,427,122</u></u>	<u><u>2,863,321</u></u>