

For Immediate Release

## TENCENT ANNOUNCES 2006 INTERIM AND SECOND QUARTER RESULTS

**Hong Kong, August 23, 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 half year and second quarter ended June 30 2006.

### **Highlights for First Half of 2006:**

- Total revenues increased by 112.9% to RMB 1,350.3 million (USD168.9 million\*) compared with the first half of 2005
- Revenues from Internet Value Added Services (IVAS) increased by 181.8% to RMB 898.8 million (USD112.4 million)
- Revenues from Mobile and Telecommunications Value Added Services (MVAS) increased by 26.2% to RMB 341.8 million (USD42.7 million)
- Revenues from Online Advertising increased by 158.9% to RMB 104.7 million (USD13.1 million)
- Gross profit increased by 130.5% to RMB 975.6 million(USD122.0 million)  
Operating profit increased by 166.3% to RMB 591.6 million (USD74.0 million)  
Net profit for the period increased by 82.3% to RMB 517.6 million (USD64.7 million)

### **Highlights for the Second Quarter of 2006:**

- Total revenues were RMB 705.0 million (USD88.2 million), an increase of 9.2% over the first quarter (“QoQ”) or an increase of 111.3% over the second quarter of 2005 (“YoY”)
- Revenues from IVAS were RMB 462.3 million (USD57.8 million), an increase of 5.9% QoQ or an increase of 172.1% YoY
- Revenues from MVAS were RMB178.4million (USD22.3 million), an increase of 9.1% QoQ or an increase of 30.7% YoY
- Revenues from Online Advertising were RMB 63.0 million (USD7.9 million), an increase of 50.8% QoQ or an increase of 150.2% YoY
- Gross profit was RMB505.9 million (USD63.3 million), an increase of 7.7% QoQ or an increase of 125.2% YoY
- Operating profit was RMB310.0 million (USD38.8 million), an increase of 10.1% QoQ or an increase of 161.1% YoY
- Net profit was RMB267.9 million (USD33.5 million), an increase of 7.3% QoQ or an increase of 43.3% YoY
- Key platform statistics:
  - Total registered Instant Messaging (IM) user accounts climbed to 549.0 million, representing a 3.3% growth QoQ. Active IM user accounts increased 1.7% QoQ to 224.2 million
  - Peak simultaneous online user accounts for IM services recorded over 20.1 million, a growth of 2.6% QoQ. Peak simultaneous online user accounts of QQ Game portal (including mini casual games and advanced casual games) was 2.6 million as against 2.8 million in the previous quarter. The decline reflected the seasonal impact of school exams and World Cup.
  - IVAS paying subscriptions were 14.7 million, an increase of 8.9% QoQ
  - MVAS paying subscriptions were 10.1 million, an increase of 6.3% QoQ

\*Figures stated in USD are based on USD1 to RMB7.996

Mr. Ma Huateng, Chairman and CEO of Tencent, said “We are pleased that our second quarter results showed quarter on quarter growth on the back of a strong first quarter. We are also pleased to note that QQ.com has ascended to become the most popular portal in China and the 5<sup>th</sup> most visited website worldwide, according to Alexa.com. This demonstrates our focus on user experience and long-term development of our Internet platforms are bearing fruits.

“In the near term, we face a lot of pressure on the wireless business and increasing competition on the online game business. Our current priorities are to manage the challenges in the wireless sector proactively and strengthen our competitiveness in online games. At the same time, we will continue to invest in research and development to foster the growth of our online platforms and to strengthen our overall market position over the long-run,” he added.

### **Business Highlights**

IVAS accounted for 65.6% of the total revenues, compared with 67.6% in the previous quarter. The 5.9% increase QoQ reflected continued growth in our online identity and community business, including QQ Show, QQ Pet and Qzone. We also benefited from the growth of our online games. In addition, Premium QQ grew as we began to bundle some of our other value-added services, including QQ Magic, E-cards, self-defined personal icons and QQ Ring, into Premium QQ’s service package during the second quarter of 2006.

MVAS made up 25.3% of total revenues, same as in the previous quarter. The 9.1% increase QoQ reflected the full quarter contribution of content-based services attributable to Joymax group, which was acquired in late January 2006. In addition, revenues from our 2.5G services grew as a result of increased promotion for both WAP and MMS. Our mobile voice value-added services comprising ringback tones and mobile IVR also grew.

Online Advertising accounted for 8.9% of total revenues, compared with 6.5% in the previous quarter.

The 50.8% increase QoQ was mainly attributable to one significantly large order from a consumer product customer for a special cross-marketing promotion campaign, increased volume through agency sales and the increase in advertising on our QQ game portal. Advertising revenues relating to the Internet search functions also grew.

### **Financials**

Gross profit was RMB505.9 million (USD63.3 million), an increase of 7.7% QoQ or 125.2% from the same period last year. Gross margin decreased to 71.8% from 72.8% in the previous quarter. Operating profit was RMB310.0 million (USD38.8 million), an increase of 10.1% QoQ or an increase of 161.1% YoY. Operating margin increased to 44.0% from 43.6% in the previous quarter. Net profit was RMB267.9 million (USD33.5 million), an increase of 7.3% QoQ or an increase of 43.3% YoY. Net margin decreased to 38.0% from 38.7% in the previous quarter. Basic earnings per share were RMB0.151. Diluted earnings per share were RMB0.147.

Share-based compensation was RMB19.4 million for this quarter in comparison to RMB 14.4 million in the previous quarter. Foreign exchange loss, as a result of Renminbi appreciation, was RMB3.1 million for the second quarter of 2006 compared to RMB10.1 million for the first quarter of 2006.

## Outlook

In July 2006, we announced that we would be required to implement a number of policy changes for wireless value-added services on China Mobile's Monternet platform including SMS, MMS and WAP services. We anticipate that these policies will have a negative impact on our MVAS services and revenues due to reduced growth for new subscriptions and increased churn of existing subscriptions, as well as on certain Internet services that offer wireless functionalities. To manage the challenges and uncertainties in the wireless sector, we seek to work closely with China Mobile, improve our services to increase user stickiness and product differentiation, and explore alternative ways to promote our services under the new policies.

We also understand that wireless service providers who are currently providing mobile chat services on the Monternet platform would have their service contracts extended until December 31, 2006. We are engaging in a constructive dialogue with China Mobile to discuss the possible options thereafter. As we proactively manage these challenges in the wireless sector, our diversified revenue model will offer an important source of stability. We will continue to invest in R&D, operations and strategic marketing to strengthen our Internet platforms and various online services.

In our core IM platform, we have implemented a number of operational measures to eliminate spam messaging and enhance password protection with good initial results. Although these measures partially offset the increase in the number of peak concurrent users and active user accounts, we believe these efforts will foster a healthy long-term growth for our platforms.

With respect to our QQ.com portal, we believe the rapid growth of QQ.com since its launch in the end of 2003 is yet another demonstration of the strength of our Internet platforms. We believe the current number one Chinese portal position will give us a big push to upscale our advertising business and contribute to the growth of our other Internet services through cross-marketing.

In our Internet value-added services, we are continuing to improve system performance and product experience for these products. With respect to online games, market competition is becoming more severe. In response, we focused on expanding the content of QQ Fantasy following a successful commercialization of the MMOG in the first quarter. We launched a major expansion pack in mid-August which was aimed to increase the stickiness of the game. We also launched our second advanced casual game, R2Beat, in July for open beta testing and are actively looking for new games to expand our portfolio of advanced casual games. Owing to seasonal factors, our mini casual games registered a decline in peak simultaneous user accounts. After a period of heavy focus on monetization of casual games portal, we are now shifting more of our attention to building new games and enhancing user experience in order to reinforce our market leadership.

Our advertising business continued to grow at a fast pace during the second quarter as we have been able to leverage the significant traffic on our IM and portal platforms. With a focus on team development, product innovation and client servicing, we believe we are well poised to capitalize on the secular growth trend in the online advertising industry in China.

### **Focus on Strengthening the Management Team**

We have recently appointed Mr. Lau Seng Yee, a advertising industry veteran, to our senior management team. Over the past year, we focused on strengthening on management as the scale and scope of our business expanded. Mr. Lau represents the latest addition to a group of senior executives we appointed to manage our day-to-day operations. Their profiles are as follows:

#### **Jeff Xiong, Co-Chief Technology Officer**

Jeff Xiong, aged 41, joined Tencent in 2005 as Co-Chief Technology Officer. Jeff is responsible for improving our R&D capability in product strategy planning and process management, managing our platform systems groups, including the instant messaging platform group and other groups for massive-scale online application systems. Prior to his current employment, Jeff worked at Microsoft for nine years, as senior project manager for Internet Explorer, Windows and MSN groups; and as founding director of MSN China Development Center, focusing on defining and executing MSN product development strategy and roadmap in China. Prior to that, Jeff worked at IBM Internet Division as Staff Programmer. Jeff has a Bachelor of Engineering degree in Information System Engineering from National University of Defense Technology in 1987 and a Master's degree in Information Retrieval from Chinese Defense Science and Technology Information Center (CDSTIC) in Beijing in 1990. Jeff has more than fifteen-year experience in software development and project management.

#### **Lau Seng Yee, Executive Vice President, Online Marketing Services & Corporate Branding**

SY Lau, aged 39, joins Tencent in mid-2006 with the mandate to further develop the Company's online advertising business and corporate branding for the Company's various web properties. With his extensive professional management experience, he is expected to bring value-added management skills in managing the company's portal with the assistance of other executives. SY Lau is a seasoned professional in branding and marketing communication with more than 15 years of solid experience working in leading international advertising agencies, and with the previous 12 years in a leadership position in China. Prior to joining Tencent, he was the Managing Partner of Publicis China and the CEO for BBDO China before that. He had also held senior management positions at Dentsu Young & Rubicam in Shanghai, and McCann-Erickson in Beijing and Hong Kong. Mr Lau has been a prolific speaker and article contributor in the advertising industry. He was the chairman of Shanghai 4As Council in 2003. SY received his EMBA from Rutgers State University of New Jersey, USA.

**Ren Yuxin, Executive Vice President, Interactive Entertainment Services**

Ren Yuxin, aged 31, became Executive Vice President in September 2005, after serving 5 years as General Manager for value-added services and interactive entertainment services. He is currently in charge of the research and development, operation, marketing and sales of Tencent's various online game offerings. Mr. Ren worked at Huawei Technologies, after earning his Bachelor degree in Computer Science and Engineering from the University of Electronic Science and Technology of China in 1998.

**Wu Xiaoguang, Executive Vice President, Internet Services**

Wu Xiaoguang, aged 31, became Executive Vice President with the responsibility to develop and market Tencent's internet value-added services in November 2005. Joining the company in 1998, he was one of the masterminds behind the development of Tencent's core instant messaging software QQ and has accumulated rich experience in the research and development, design, operation and marketing of internet services. Mr. Wu graduated from Nanjing University in 1996, with a Bachelor of Science degree in Weather Dynamics.

**Liu Chengmin, Executive Vice President, Wireless Services**

Liu Chengmin, aged 34, became Executive Vice President in October 2005 with the responsibility to develop and operate Tencent's wireless business and the management of its regional markets in China. He joined the company in 2003 to run the telecommunication and later mobile communication businesses. A graduate of Harbin Industrial University with a Master of Science degree in Mechanics, Mr. Liu has gained experience in the domestic marketing and sales while working at Huawei Technologies.

**Li Haixiang, Executive Vice President, Operations Support System**

Li Haixiang, aged 34, became Executive Vice President in December 2005 with the responsibility to plan, construct and manage the technical platform supporting our various operations. These will cover crucial components facilitating the day-to-day operation of the Company, such as the technical architecture, security, settlements, business intelligence, channel connections, fundamental IT, applications and customer servicing platform. Before joining Tencent in 1999, Mr. Li was in charge of developing financial and network application software at an IT system integration company. Mr. Li received his Bachelor degree in Computer Software from South China University of Technology.

## 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](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)

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Unaudited		Unaudited	
	2Q2006	1Q2006	2Q2006	2Q2005
<b>Revenues</b>	<b>704,981</b>	<b>645,305</b>	<b>704,981</b>	<b>333,665</b>
Internet VAS	462,260	436,538	462,260	169,883
Mobile & Telecom VAS	178,355	163,426	178,355	136,498
Online Advertising	62,972	41,770	62,972	25,170
Others	1,394	3,571	1,394	2,114
<b>COPS</b>	<b>(199,035)</b>	<b>(175,693)</b>	<b>(199,035)</b>	<b>(108,963)</b>
<b>Gross profit</b>	<b>505,946</b>	<b>469,612</b>	<b>505,946</b>	<b>224,702</b>
<i>Gross margin</i>	<i>71.8%</i>	<i>72.8%</i>	<i>71.8%</i>	<i>67.3%</i>
Other gains, net	21,357	21,536	21,357	15,148
S&M expenses	(74,838)	(79,748)	(74,838)	(45,501)
G&A expenses	(142,440)	(129,807)	(142,440)	(75,596)
<b>Operating profit</b>	<b>310,025</b>	<b>281,593</b>	<b>310,025</b>	<b>118,753</b>
<i>Operating margin</i>	<i>44.0%</i>	<i>43.6%</i>	<i>44.0%</i>	<i>35.6%</i>
Financial cost	(6,537)	(10,095)	(6,537)	(51)
Profit before income tax	303,488	271,498	303,488	118,702
Income tax expenses	(35,599)	(21,798)	(35,599)	68,271
<b>Profit for the period</b>	<b>267,889</b>	<b>249,700</b>	<b>267,889</b>	<b>186,973</b>
<i>Net margin</i>	<i>38.0%</i>	<i>38.7%</i>	<i>38.0%</i>	<i>56.0%</i>
<b>Earnings per share</b>				
- basic (RMB)	0.151	0.141	0.151	0.106
- diluted (RMB)	0.147	0.137	0.147	0.103

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 30 JUNE 2006 AND 31 MARCH 2006**

	Unaudited 30 June 2006 RMB'000	Unaudited 31 March 2006 RMB'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	494,885	443,466
Leasehold land payments	9,908	-
Intangible assets	216,444	215,753
Held-to-maturity investments	239,868	241,386
Deferred tax assets	91,983	98,641
Available-for-sale investments	36,073	36,073
	<u>1,089,161</u>	<u>1,035,319</u>
<b>Current assets</b>		
Inventories	2,571	1,615
Accounts receivable	381,406	307,139
Prepayments, deposits and other receivables	62,350	52,272
Financial assets held for trading	286,343	335,487
Term deposits with initial term of over three months	711,543	511,587
Cash and cash equivalents	1,458,733	1,679,200
	<u>2,902,946</u>	<u>2,887,300</u>
<b>Total Assets</b>	<u><u>3,992,107</u></u>	<u><u>3,922,619</u></u>
<b>EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital	191	192
Share premium	1,439,916	1,592,623
Share-based compensation reserve	73,913	54,538
Other reserves	80,925	80,925
Retained earnings	1,513,330	1,390,843
	<u>3,108,275</u>	<u>3,119,121</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred tax liabilities	17,532	13,421
Long term payable	106,056	104,065
	<u>123,588</u>	<u>117,486</u>
<b>Current liabilities</b>		
Accounts payable	50,857	51,962
Other payables and accruals	353,956	273,312
Current income tax liabilities	47,555	48,432
Other tax liabilities	20,199	38,493
Deferred revenue	287,677	273,813
	<u>760,244</u>	<u>686,012</u>
<b>Total Liabilities</b>	<u>883,832</u>	<u>803,498</u>
<b>Total Equity and Liabilities</b>	<u><u>3,992,107</u></u>	<u><u>3,922,619</u></u>