

**For Immediate Release**

**TENCENT ANNOUNCES 2009 THIRD QUARTER RESULTS**

**Hong Kong, November 11, 2009** – Tencent Holdings Limited (“Tencent” or the “Company”, SEHK 00700), a leading provider of Internet and mobile & telecommunications value-added services in China, today announced the unaudited consolidated results for the third quarter of 2009 ended September 30, 2009.

**Highlights of the Third Quarter of 2009:**

- § Total revenues were RMB3,368.9 million (USD493.3 million), an increase of 17.0% over the second quarter of 2009 (“QoQ”) or an increase of 66.4% over the third quarter of 2008 (“YoY”)
- § Revenues from Internet value-added services (“IVAS”) were RMB2,622.6 million (USD384.0 million), an increase of 21.6% QoQ or an increase of 87.3% YoY
- § Revenues from mobile and telecommunications value-added services (“MVAS”) were RMB446.2 million (USD65.3 million), a decrease of 5.1% QoQ or an increase of 19.8% YoY
- § Revenues from online advertising were RMB293.6 million (USD43.0 million), an increase of 20.8% QoQ or an increase of 17.9% YoY
- § Gross profit was RMB 2,344.8 million (USD343.4 million), an increase of 20.6% QoQ or an increase of 70.1% YoY. Gross margin increased to 69.6% from 67.5% last quarter
- § Operating profit was RMB1,680.3 million (USD246.1 million), an increase of 20.1% QoQ or an increase of 107.3% YoY. Operating margin increased to 49.9% from 48.6% last quarter
- § Profit for the period was RMB1,433.2million (USD209.9 million), an increase of 19.3% QoQ or an increase of 92.3% YoY. Net margin increased to 42.5% from 41.8% last quarter
- § Profit attributable to equity holders of the Company for the period was RMB1,419.9 million (USD207.9 million), an increase of 19.1% QoQ or an increase of 92.6% YoY
- § Key platform statistics:
  - Total registered Instant Messaging (“IM”) user accounts increased to 1,057.0 million, representing a 6.8% growth QoQ
  - Active IM user accounts increased 8.2% QoQ to 484.9 million
  - Peak simultaneous online user accounts for IM services recorded 75.5 million, a growth of 23.2% QoQ
  - Peak simultaneous online user accounts of QQ Game portal (for mini casual games only) was 5.7 million, representing a decrease of 8.1% QoQ
  - IVAS paying subscriptions were 47.9 million, an increase of 19.8% QoQ
  - MVAS paying subscriptions were 17.7 million, an increase of 2.9% QoQ

Mr. Ma Huateng, Chairman and CEO of Tencent, said, "During the third quarter of 2009, we delivered solid growth in our operating and financial results. Our revenues benefited from the strong seasonality of the summer school holidays as well as the popularity our SNS applications, which also enhanced user activity and engagement of our IM and Qzone platforms. Looking ahead, the fourth quarter would present challenging seasonality for our IVAS and online advertising businesses. To sustain our position in the increasingly competitive market, we will continue to step up investments in our platforms, people and branding."

## **Financial Review for the Third Quarter of 2009**

IVAS revenues increased 21.6% QoQ to RMB2,622.6 million and represented 77.8% of the total revenues in the third quarter of 2009. Revenue from online gaming business increased 23.2% QoQ to RMB1,528.7 million. The significant growth reflected the positive seasonal impact of the summer school holidays which increased monetization of our major games, Cross Fire, Dungeon and Fighter, QQ Dancer and QQ speed. This was partially offset by the decline in revenues from more mature MMOGs, including QQ Huaxia, QQ Fantasy and QQ SanGuo. Revenues from QQ Game remained flat as it faced cannibalization from other SNS-based casual gaming applications.

Revenues from our community value-added services posted solid growth, on the back of the growth in Qzone, QQ Show and QQ Membership. Growth in revenues from Qzone was stimulated by the popularity of new SNS applications, which enhanced user activity and monetization. QQ Show grew with the ongoing enhancements in user experience and features. Revenues from QQ Membership increased, mainly attributable to growth in monthly subscription driven by cross promotions with other Internet value-added services during the summer season. Despite positive seasonality, revenues from QQ Pets declined with the decrease in usage and monetization, due to its maturity and competition from other SNS-based casual gaming applications.

MVAS revenues decreased 5.1% QoQ to RMB 446.2 million and represented 13.2% of the total revenues. This was mainly due to the decrease in realization rates and lower revenues from mobile voice value-added services, including the legacy color ringback tone business.

Online advertising revenues grew 20.8% QoQ to RMB293.6 million and represented 8.7% of total revenues. The growth primarily reflected better seasonality in the third quarter and a gradual improvement in the economic environment in China.

## **Other Key Financial Information for the Third Quarter of 2009**

Share-based compensation was RMB117.8 million for the third quarter of 2009 as compared with RMB53.9 million for the previous quarter.

Foreign exchange loss was RMB1.2 million for the third quarter of 2009 as compared with a loss of RMB0.7 million for the previous quarter.

Capital expenditure was RMB269.1 million for the third quarter of 2009 as compared with RMB191.3 million for the previous quarter.

Basic earnings per share for the quarter were RMB0.787, and diluted earnings per share were RMB0.767.

As at the end of September 30, 2009, cash position stood at RMB9,616.0 million. The total number of shares of the Company in issue was 1.816 billion.

## **Business Review and Outlook**

In the third quarter of 2009, our IVAS benefited from the strong seasonality of the summer school holidays, which increased monetisation of our popular games, as well as contributed to the growth of our community value-added services. For our MVAS, revenues declined on a quarter-on-quarter basis, primarily due to the reduction in realisation rates and the decreasing business volume of mobile voice value-added services. Our online advertising business grew on the back of the positive seasonality and a gradual improvement in economic environment. Looking ahead, the fourth quarter would present challenging seasonality for our IVAS and online advertising businesses. Visibility of our MVAS business would remain low as the industry value chain is still evolving.

### *IM Platform*

Our core IM platform continued to expand, with active users and peak concurrent users increasing to 484.9 million and 75.5 million respectively in the third quarter of 2009. The amount of time users spent on our IM services increased significantly during the quarter. This was driven by the popularity of our SNS applications which enhanced user engagement and activity through cross-platform integration, as well as increased usage of our IM services through mobile devices.

### *QQ.com*

QQ.com consolidated its position as the leading Internet media in China, with continued enhancements in the content and user experience of different channels, as well as the comprehensive coverage of the 60th anniversary of National Day. During the quarter, we stepped up our advertising and promotional activities to strengthen the brand recognition and media influence of QQ.com. We are planning a brand enhancement campaign which will increase our marketing expenses significantly in the fourth quarter.

### *Internet value-added services*

Our community value-added services delivered solid growth during the third quarter of 2009. QQ Membership grew as we carried out cross promotions with other IVAS during the summer season. However, continued growth of QQ Membership is becoming increasingly challenging because of its large base and already high penetration rate among the QQ users. We are intensifying our efforts to enhance the overall user value of the product by adding offline lifestyle services to the package. However, these efforts require long time to organize and their actual results remain to be explored. Active user accounts of Qzone increased by 33.7% on a quarter-on-quarter basis to 305.3 million at the end of the third quarter. This was mainly driven by our new SNS applications, particularly SNS-based casual games, which were well received by our users. Xiaoyou, a real-name SNS service focused on students, continued to gain traction during the quarter as we benefited from the back-to-school season after summer vacation. QQ Show benefited from positive seasonality and our ongoing enrichment of content and user experience. For QQ Pets, usage and monetisation decreased during the quarter despite stronger seasonality due to its maturity and competition from other SNS-based casual gaming applications. We are working on a comprehensive upgrade of the product with more multiplayer functions and lower level of monetisation in order to revive the user base of the service.

In the third quarter, our online gaming business benefited from the strong seasonal impact of the summer holidays. Our advanced casual games, which performance are particularly sensitive to holidays, registered robust growth. While the PCU of Cross Fire increased to 1.6 million, QQ Dancer achieved over 1 million PCU during the quarter, making it our third online game reaching this milestone. In MMOG, the PCU of DNF exceeded 2 million during the quarter. We also launched Silk Road Hero, a web-based MMOG, and Hero Island, a niche market MMOG, to cover the various market segments within the online gaming market. During the third quarter, the PCU of QQ Game declined to 5.7 million as the number for the previous quarter was stimulated by short-term boost due to special marketing activities and in-game promotions. Its revenue was stable compared to the previous quarter. Going forward, QQ Game may face additional cannibalisation impact from SNS-based casual gaming applications. For upcoming game titles, we are currently fine-tuning the close beta of A.V.A., a first person shooting game. We also plan to launch Feng Shen Ji and Fantasy World, both of which are in-house developed MMOGs, in 2010.

#### *Mobile and telecommunications value-added services*

In the third quarter, revenues from our MVAS business was dampened by lowered realisation rates and decline in mobile voice value-added services, including the legacy colour ringback tone business. Monthly subscription to our bundled SMS packages grew slightly as we enhanced functionalities and user experience. We also experienced strong increase in the traffic on our wireless portal, further strengthening its leading position in China. While the proliferation of 3G will present new business opportunities over the longer term, visibility of the industry remains low as the value chain is still evolving.

#### *Online advertising*

Amid positive seasonal impact of the summer holidays and gradual improvement in the overall economic environment, our advertising revenues increased during the quarter. However, sustainability of the recovery in the advertising market is still uncertain. Looking ahead, the fourth quarter would present weaker seasonality for the business. We also expect our search-based advertising revenues to reduce substantially due to amendments to service contract with our partner and the gradual transition into our self-developed search engine.

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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 social networking 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 has three main streams of revenues: 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 00700. The Company became one of the 43 constituents of the Hang Seng Index (HSI) on June 10, 2008. For more information, please visit [www.tencent.com/ir](http://www.tencent.com/ir).

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## 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 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 is a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents on our corporate website.*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In RMB '000 (unless otherwise stated)

	Unaudited		Unaudited	
	3Q2009	2Q2009	3Q2009	3Q2008
<b>Revenues</b>	<b>3,368,908</b>	<b>2,878,423</b>	<b>3,368,908</b>	<b>2,024,474</b>
Internet VAS	2,622,625	2,156,468	2,622,625	1,400,598
Mobile & Telecom VAS	446,152	470,003	446,152	372,498
Online Advertising	293,558	243,044	293,558	249,068
Others	6,573	8,908	6,573	2,310
<b>Cost of revenues</b>	<b>(1,024,086)</b>	<b>(934,613)</b>	<b>(1,024,086)</b>	<b>(645,748)</b>
<b>Gross profit</b>	<b>2,344,822</b>	<b>1,943,810</b>	<b>2,344,822</b>	<b>1,378,726</b>
<i>Gross margin</i>	<b>69.6%</b>	<b>67.5%</b>	<b>69.6%</b>	<b>68.1%</b>
Other gains /(losses), net	39,014	25,328	39,014	(6,902)
S&M expenses	(160,671)	(114,587)	(160,671)	(184,730)
G&A expenses	(542,818)	(455,629)	(542,818)	(376,585)
<b>Operating profit</b>	<b>1,680,347</b>	<b>1,398,922</b>	<b>1,680,347</b>	<b>810,509</b>
<i>Operating margin</i>	<b>49.9%</b>	<b>48.6%</b>	<b>49.9%</b>	<b>40.0%</b>
Finance costs	(1,179)	(653)	(1,179)	(7,944)
Share of profit/(loss) of associates	3,840	3,452	3,840	(176)
Profit before income tax	1,683,008	1,401,721	1,683,008	802,389
Income tax expense	(249,808)	(199,973)	(249,808)	(57,099)
<b>Profit /total comprehensive income for the period</b>	<b>1,433,200</b>	<b>1,201,748</b>	<b>1,433,200</b>	<b>745,290</b>
<i>Net margin</i>	<b>42.5%</b>	<b>41.8%</b>	<b>42.5%</b>	<b>36.8%</b>
<b>Attributable to:</b>				
Equity holders of the Company	1,419,851	1,192,410	1,419,851	737,123
Minority interests	13,349	9,338	13,349	8,167
<b>Earnings per share</b>				
- basic (RMB)	0.787	0.662	0.787	0.410
- diluted (RMB)	0.767	0.647	0.767	0.400

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

In RMB '000 (unless otherwise stated)

	Unaudited	
	30 September 2009	30 June 2009
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	2,377,732	1,703,614
Construction in progress	64,372	554,982
Investment properties	7,548	32,034
Leasehold land and land use rights	35,484	35,671
Intangible assets	290,295	316,682
Investment in associates	391,465	324,429
Deferred income tax assets	288,119	302,599
Held-to-maturity investments	341,450	341,595
Available-for-sale financial assets	152,913	89,087
Prepayments, deposits and other receivables	93,113	93,129
	<u>4,042,491</u>	<u>3,793,822</u>
<b>Current assets</b>		
Inventories	1,091	1,378
Accounts receivable	1,434,983	1,194,668
Prepayments, deposits and other receivables	361,164	410,800
Term deposits with initial term of over three months	4,115,240	3,380,260
Restricted cash	200,000	-
Cash and cash equivalents	5,159,322	4,061,022
	<u>11,271,800</u>	<u>9,048,128</u>
<b>Total Assets</b>	<u>15,314,291</u>	<u>12,841,950</u>
<b>EQUITY</b>		
<b>Equity attributable to the Company's equity holders</b>		
Share capital	196	196
Share premium	1,214,203	1,163,452
Shares held for share award scheme	(82,147)	(46,232)
Share-based compensation reserve	603,129	485,139
Other reserves	(431,340)	(431,621)
Retained earnings	9,030,610	7,610,759
	<u>10,334,651</u>	<u>8,781,693</u>
<b>Minority interests in equity</b>	109,866	102,894
<b>Total Equity</b>	<u>10,444,517</u>	<u>8,884,587</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	101,505	73,365
Long-term payables	551,057	553,429
	<u>652,562</u>	<u>626,794</u>
<b>Current liabilities</b>		
Accounts payable	664,431	637,101
Other payables and accruals	1,359,156	1,115,966
Short-term bank borrowing	202,322	-
Current income tax liabilities	205,146	148,274
Other tax liabilities	187,143	112,566
Deferred revenue	1,599,014	1,316,662
	<u>4,217,212</u>	<u>3,330,569</u>
<b>Total Liabilities</b>	<u>4,869,774</u>	<u>3,957,363</u>
<b>Total Equity and Liabilities</b>	<u>15,314,291</u>	<u>12,841,950</u>