

For Immediate Release

TENCENT ANNOUNCES 2010 THIRD QUARTER RESULTS

Hong Kong, November 10, 2010 – 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 2010 ended September 30, 2010.

Highlights of the third quarter of 2010:

- § Total revenues were RMB5,226.6 million (USD780.0 million¹), an increase of 11.9% over the second quarter of 2010 (“QoQ”) or an increase of 55.1% over the third quarter of 2009 (“YoY”)
- § Revenues from Internet value-added services (“IVAS”) were RMB4,129.0 million (USD616.2 million), an increase of 15.3% QoQ or an increase of 57.4% YoY
- § Revenues from mobile & telecommunications value-added services (“MVAS”) were RMB695.1 million (USD103.7 million), an increase of 3.1% QoQ or an increase of 55.8% YoY
- § Revenues from online advertising were RMB382.5 million (USD57.1 million), a decrease of 3.8% QoQ or an increase of 30.3% YoY
- § Gross profit was RMB3,550.1 million (USD529.8 million), an increase of 11.4% QoQ or an increase of 51.4% YoY. Gross margin decreased to 67.9% from 68.2% last quarter
- § Operating profit was RMB2,665.9 million (USD397.8 million), an increase of 12.4% QoQ or an increase of 58.7% YoY. Operating margin increased to 51.0% from 50.8% last quarter
- § Profit for the period was RMB2,168.3 million (USD323.6 million), an increase of 12.3% QoQ or an increase of 51.3% YoY. Net margin increased to 41.5% from 41.4% last quarter
- § Profit attributable to equity holders of the Company for the period was RMB2,153.1 million (USD321.3 million), an increase of 12.3% QoQ or an increase of 51.6% YoY
- § Key platform statistics:
 - Active Instant Messaging (“IM”) user accounts increased 3.9% QoQ to 636.6 million
 - Peak simultaneous online user accounts for IM services increased 8.5% QoQ to 118.7 million
 - Active user accounts of Qzone increased 5.0% QoQ to 481.2 million
 - Peak simultaneous online user accounts of QQ Game portal (for mini casual games only) increased 3.2% QoQ to 6.4 million
 - IVAS paying subscriptions increased 6.5% QoQ to 67.3 million
 - MVAS paying subscriptions increased 5.0% QoQ to 25.3 million

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “During the third quarter of 2010, we registered solid growth in our operating and financial results. The recent malware incident has once again highlighted the importance of enhancing our security technology and infrastructure, especially when our large user can become attractive targets of malicious attacks. We will significantly increase our investments in security technology and infrastructure in order to better protect our users in the face of increasing security threats in the Internet industry in China.”

¹ Figures stated in USD are based on USD1 to RMB6.7011

Financial Review for the Third Quarter of 2010

IVAS revenues increased 15.3% QoQ to RMB4,129.0 million and represented 79.0% of our total revenues for the third quarter of 2010. Revenues from our online games increased 19.3% QoQ to RMB2,557.2 million. This mainly reflected the positive impact of the summer school holidays during which monetisation of Cross Fire and other major online games increased. The increase in online gaming revenues was also driven by revenue contribution from our recently launched MMOGs and the growth of QQ Game. Revenues from our community value-added services increased 9.2% QoQ to RMB1,571.8 million, mainly as a result of the growth in Qzone and QQ Membership. The increase in revenues from Qzone was primarily attributable to rising popularity of our SNS applications, as well as our promotional activities focusing on annual subscription, privileges and item sales. QQ Membership benefited from the summer school holidays and registered growth in subscriber base.

MVAS revenues increased 3.1% QoQ to RMB695.1 million and represented 13.3% of our total revenues for the third quarter of 2010. This mainly reflected growth in revenues from mobile social games and mobile games.

Online advertising revenues decreased 3.8% QoQ to RMB382.5 million and represented 7.3% of our total revenues for the third quarter of 2010. The decline mainly reflected the closing of the World Cup in July 2010. In the previous quarter, we benefited from the advertising opportunities generated from this major event.

Other Key Financial Information for the Third Quarter of 2010

Share-based compensation was RMB131.0 million for the third quarter of 2010 as compared with RMB119.6 million for the previous quarter.

Finance income was RMB3.4 million for the third quarter of 2010 as compared with costs of RMB3.0 million for the previous quarter.

Capital expenditure was RMB593.4 million for the third quarter of 2010 as compared with RMB566.0 million for the previous quarter.

Basic earnings per share for the quarter were RMB1.185, and diluted earnings per share were RMB1.159.

As at September 30, 2010, cash and cash equivalents and term deposits with initial term of over three months totaled RMB17,426.5 million. The total number of shares of the Company in issue was 1.833 billion.

Business Review and Outlook

In the third quarter of 2010, our IVAS benefited from the positive seasonality of the summer school holidays and registered continued increase in revenues, mainly as a result of the increased monetisation of Cross Fire and other major online games, as well as the growth of our community

value-added services. However, as the revenue base has become larger, the year-on-year growth rate of the IVAS business slowed down. Our MVAS registered revenue growth on the back of the increased popularity of our mobile social games and mobile games. Our advertising business experienced a decline in revenues primarily due to the closing of the World Cup in July 2010. In the previous quarter, we benefited significantly from the advertising opportunities generated from this major event. Looking ahead, the fourth quarter of 2010 is expected to be a weaker season for our IVAS and online advertising business. Our MVAS business is still operating in an uncertain regulatory environment and intensifying market competition.

On October 29 2010, our QQ services encountered an attack by a program, which we believe to be a malware, called "Kou Kou Bodyguard". The malware was created by Qihoo 360 ("360"), which also operates the most popular Internet security software, 360 Security Guard, in the PRC. The malware encouraged users to install it by offering functions such as blocking advertising in our QQ client. However, when installed, it could also make modifications to our QQ client software, including redirecting our QQ Security Center to the webpage of 360's own products and replacing it with the malware, thus compromising the security of our users. In addition, based on our analysis, the malware also contains four hidden functions or "backdoors", which could further threaten the security of our users by disabling the upgrade of our QQ client, copying the client and its information, disabling QQ client functions by blocking the program or process initiated from the QQ client and directing all browsing activities to 360's own browser. After discovering this malware, we immediately reported the matter to relevant government authorities. However, the ensuing investigation took time, while the malware spread quickly with 360's strong promotional support. In a matter of six days, more than 20 million QQ accounts had been affected by the malware according to our estimation. On November 3 2010, we believed that 360 had attempted to speed up the spread of the malware by bundling the malware into 360 Security Guard. Given such circumstances, we believed that we had no other choice but to take decisive action to prevent a large number of our users from being affected by the malware. On the same day, we thus informed our users that, until 360 has ceased such attacks, QQ services would not be operating on computers with relevant software created by 360. This was an emergency measure to protect our users by preventing the fast spread of the malware. The decision caused many users, who had installed both our QQ client and 360 Security Guard, to be unable to log on to our QQ services, which in turn drew the attention of government authorities. Under the direction from relevant government authorities, 360 announced the withdrawal of the malware on the following day. Consequently, QQ services were resumed on machines which were not affected by the malware. After the resumption of normal services, user numbers returned to normal levels. However, we are still evaluating the longer term impact of this incident on our business.

We believe the whole incident was a deliberate and illegal attack and has set up a precedent against the lawful and ethical practice of the PRC Internet industry, as evidenced by the fact that an Internet security software company developed a malware targeting and affecting an application software. We

intend to seek appropriate legal remedies from 360 accordingly. In addition, we have already filed a lawsuit against 360 in October 2010 for unfair business practices relating to separate software product and related publicity campaign that involved unfounded claims that we had been improperly collecting confidential information of our users.

Due to the urgency and time constraints in the events described above, we did not communicate fully with our users, causing significant inconvenience to some of them. Going forward, we plan to focus more on the development of the security of QQ software and expand our safety products co-operation with security software developers in the industry for better protection of our users. In addition, we intend to repair our corporate image and improve our relationship and communications with our users. We believe these initiatives would benefit us in the long run.

IM Platform

User base of our core IM platform expanded during the quarter. Riding on the positive seasonal impact of the summer school holidays and the growing number of mobile Internet users in China, active user accounts and peak concurrent user accounts (“PCU”) increased to 636.6 million and 118.7 million respectively. User activeness also grew as the usage of our IM services on mobile devices increased.

QQ.com

QQ.com experienced growth in traffic and user stickiness in the third quarter, as we improved the content and user experience of our key channels, as well as leverage the World Cup and the Word Expo to enhance our media influence. We plan to build on the positive impact we made in these major events to further enhance the position of QQ.com as a mainstream media platform in China. We will also continue to enhance our content and operations, as well as to achieve stronger integration between QQ.com and other platforms of Tencent.

Internet value-added services

Our community value-added services registered growth during the quarter. QQ Membership benefited from the summer school holiday and registered increase in user base. During the quarter, we continued to focus on increasing user loyalty and stickiness through bundling of online privileges and functionalities. We also enhanced offline lifestyle privileges via partnership with external providers. Recent trials include group buying and travel. For SNS, the active user base of Qzone increased 5.0% QoQ to 481.2 million at the end of the third quarter, mainly driven by enrichment in social applications offered on the platform as well as improvement in user experience. We are targeting the social needs of different user groups by upgrading Xiaoyou to Pengyou, which is a larger

social platform designed to serve both university students and the white-collar communities. We are also focusing on a social infrastructure upgrade and an open platform roll-out. On the other hand, QQ Show registered revenue growth during the quarter as we expanded our user base through free trials and enhanced user experience.

Our online gaming business benefited from the positive seasonal impact of the summer school holidays. For advanced casual games, usage and monetisation increased, mainly due to the expansion packs and marketing activities launched during the quarter. Monetisation of our MMOGs also improved as we introduced new games and new content for existing titles during the summer holidays. During the quarter, although we introduced expansion packs for Dungeon and Fighter, its PCU declined mainly due to bot-fighting. For QQ Game, PCU increased to 6.4 million in the third quarter as we focused on stimulating user growth via tournaments and cross-platform integration. Qi Xiong Zheng Ba, a web-based MMOG, was introduced to the market in August 2010 and its initial performance exceeded our expectation. On the other hand, while there was no additional regulation introduced during the quarter, we expect a more stringent regulatory environment for the online gaming industry going forward. Nevertheless, we believe that this should foster a healthier operating market over the longer term.

Mobile and telecommunications value-added services

The quarter-on-quarter growth of the business was mainly attributable to the increase in revenues from 2.5G-based mobile social games and mobile games as we enriched our content, improved user experience and launched promotional activities during the summer holidays. While the regulation that requires service providers to conduct double confirmation plus reminder services for monthly subscriptions and item sales started to affect our revenues negatively in the third quarter, the extent of the full impact remains to be seen. To position ourselves for the growth opportunities in the mobile Internet world, we continued to extend our PC-based services to wireless platform and to customize the applications for a larger variety of terminal devices.

Online advertising

Our online advertising revenues declined on a quarter-on-quarter basis, mainly due to the closing of the World Cup in July 2010. In the previous quarter, the business benefited significantly from this major event as our top advertisers allocated a larger portion of their budget to advertising opportunities related to the World Cup. Our search advertising business is still in a transitional phase and its revenues was limited by our traffic and nascent search advertising technology. Looking ahead, we will focus on fine-tuning our pricing strategy and inventory bundling to enhance returns on investments for our advertisers. We will also continue to invest in our brand, as well as enhance our sales organisation and operation.

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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.

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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	
	3Q2010	2Q2010	3Q2010	3Q2009
Revenues	5,226,628	4,669,180	5,226,628	3,368,908
Internet VAS	4,129,008	3,581,976	4,129,008	2,622,625
Mobile & Telecom VAS	695,057	674,120	695,057	446,152
Online Advertising	382,542	397,520	382,542	293,558
Others	20,021	15,564	20,021	6,573
Cost of revenues	(1,676,544)	(1,482,939)	(1,676,544)	(1,024,086)
Gross profit	3,550,084	3,186,241	3,550,084	2,344,822
<i>Gross margin</i>	67.9%	68.2%	67.9%	69.6%
Interest income	65,259	54,005	65,259	33,329
Other gains, net	22,479	27,415	22,479	5,685
S&M expenses	(227,817)	(230,340)	(227,817)	(160,671)
G&A expenses	(744,092)	(665,961)	(744,092)	(542,818)
Operating profit	2,665,913	2,371,360	2,665,913	1,680,347
<i>Operating margin</i>	51.0%	50.8%	51.0%	49.9%
Finance income/(costs)	3,431	(2,976)	3,431	(1,179)
Share of profit of associates	10,985	11,334	10,985	3,840
Profit before income tax	2,680,329	2,379,718	2,680,329	1,683,008
Income tax expense	(512,013)	(448,525)	(512,013)	(249,808)
Profit /Total comprehensive income for the period	2,168,316	1,931,193	2,168,316	1,433,200
<i>Net margin</i>	41.5%	41.4%	41.5%	42.5%
Attributable to:				
Equity holders of the Company	2,153,111	1,916,502	2,153,111	1,419,851
Non-controlling interests	15,205	14,691	15,205	13,349
Earnings per share				
- basic (RMB)	1.185	1.054	1.185	0.787
- diluted (RMB)	1.159	1.031	1.159	0.767

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB '000 (unless otherwise stated)

	Unaudited	
	30 September 2010	30 June 2010
ASSETS		
Non-current assets		
Fixed assets	3,114,580	2,822,058
Construction in progress	275,964	179,678
Investment properties	67,278	67,613
Land use rights	231,069	232,248
Intangible assets	566,203	265,961
Investment in associates	882,805	799,982
Investment in a jointly controlled entity	71,143	-
Deferred income tax assets	258,554	272,708
Available-for-sale financial assets	2,292,170	2,284,894
Prepayments, deposits and other assets	454,384	423,749
	<u>8,214,150</u>	<u>7,348,891</u>
Current assets		
Accounts receivable	1,842,081	1,710,749
Prepayments, deposits and other assets	421,800	401,819
Derivative financial instruments	6,613	17,578
Term deposits with initial term of over three months	9,714,422	7,422,082
Restricted cash	1,036,457	1,214,493
Cash and cash equivalents	7,712,112	6,486,312
	<u>20,733,485</u>	<u>17,253,033</u>
Total assets	<u><u>28,947,635</u></u>	<u><u>24,601,924</u></u>
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	198	198
Share premium	1,066,331	1,352,114
Shares held for share award scheme	(232,692)	(236,114)
Share-based compensation reserve	1,055,414	924,309
Other reserves	90,484	90,238
Retained earnings	15,602,489	13,449,624
	<u>17,582,224</u>	<u>15,580,369</u>
Non-controlling interests	74,879	60,174
Total equity	<u>17,657,103</u>	<u>15,640,543</u>
LIABILITIES		
Non-current liabilities		
Deferred income tax liabilities	621,799	481,517
	<u>621,799</u>	<u>481,517</u>
Current liabilities		
Accounts payable	1,287,239	1,028,726
Other payables and accruals	2,313,245	1,994,316
Short-term bank borrowings	3,838,240	2,755,116
Current income tax liabilities	460,682	358,733
Other tax liabilities	252,312	173,308
Deferred revenue	2,517,015	2,169,665
	<u>10,668,733</u>	<u>8,479,864</u>
Total liabilities	<u>11,290,532</u>	<u>8,961,381</u>
Total equity and liabilities	<u><u>28,947,635</u></u>	<u><u>24,601,924</u></u>