

**For Immediate Release**

**TENCENT ANNOUNCES 2007 INTERIM AND SECOND QUARTER RESULTS**

**Hong Kong, August 15, 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 half year and the quarter ended June 30 2007.

***Highlights for the First Half of 2007:***

- Total revenues were RMB1,641.1 million (USD215.5 million), an increase of 21.5% over the first half of year ended June 30, 2006 (“YoY”)
- Revenues from Internet value-added services (IVAS) were RMB1,048.0 million (USD137.6 million), an increase of 16.6% YoY
- Revenues from Mobile & telecommunications value-added services (MVAS) were RMB402.6 million (USD52.9 million), an increase of 17.8% YoY
- Revenues from Online advertising were RMB188.7 million (USD24.8 million), an increase of 80.1% YoY
- Gross profit was RMB1,137.5 million (USD149.4 million), an increase of 16.6% YoY
- Operating profit was RMB689.8 million (USD90.6 million), an increase of 16.6% YoY
- Net profit for the year was RMB624.7 million (USD82.0 million), an increase of 20.7% YoY

***Highlights for the Second Quarter of 2007:***

- Total revenues were RMB868.0 million (USD114.0 million), an increase of 12.3% over the first quarter (“QoQ”) or an increase of 23.1% over the second quarter of 2006 (“YoY”)
- Revenues from IVAS were RMB546.2 million (USD71.7 million), an increase of 8.9% QoQ or an increase of 18.2% YoY
- Revenues from MVAS were RMB206.0 million (USD27.1 million), an increase of 4.8% QoQ or an increase of 15.5% YoY
- Revenues from Online Advertising were RMB114.6 million (USD15.0 million), an increase of 54.7% QoQ or an increase of 82.0% YoY
- Gross profit was RMB602.0 million (USD79.0 million), an increase of 12.4% QoQ or an increase of 19.0% YoY
- Operating profit was RMB362.4 million (USD47.6 million), an increase of 10.7% QoQ or an increase of 16.9% YoY
- Net profit was RMB334.5 million (USD43.9 million), an increase of 15.3% QoQ or an increase of 24.9% YoY
- Key platform statistics:
  - Total registered Instant Messaging (IM) user accounts increased to 647.1 million, representing a 8.2% growth QoQ
  - Active IM user accounts increased 7.7% QoQ to 273.2 million
  - Peak simultaneous online user accounts for IM services recorded over 28.9 million, a growth of 1.4% QoQ
  - Peak simultaneous online user accounts of QQ Game portal (for mini casual games only) was 3.17 million, an increase of 0.3% QoQ
  - IVAS paying subscriptions were 17.5 million, an increase of 16.7% QoQ
  - MVAS paying subscriptions were 9.6 million, a decrease of 5.9% QoQ

\*Figures stated in USD are based on USD1 to RMB7.6155

Mr. Ma Huateng, Chairman and CEO of Tencent, said “We had a solid second quarter as several products in our diversified business portfolio generated encouraging growth. Online advertising, in particular, has recorded significant growth as a result of better seasonality, strengthening execution capability and increasing recognition of our Internet platforms as premier media for advertising. Going forward, we will continue to invest in building our integrated Internet platforms to better serve our users and strengthen our overall business portfolio.”

### **Business Highlights**

IVAS revenues increased 8.9% QoQ to RMB546.2 million and represented 62.9% of the total revenues in the second quarter of 2007. The increase reflected the continuing growth in revenues from Tencent’s online identity business, particularly Qzone, as a result of continued growth in the number of users for the service. Premium QQ business also saw positive growth, as the Company continued to enhance user loyalty through additional functionalities and as the Company increased cross-marketing efforts. The increase was partially offset by decreases in revenues from QQ Show, which is a mature product awaiting version upgrade.

As part of IVAS revenues, the total revenues generated from Online Games increased 7.4% QoQ to RMB151.7 million in the second quarter of 2007 due to the growth of the QQ Game Portal. The co-launch of QQ Huaxia with Shenzhen Domain (one of Tencent’s investee companies) in May 2007 also contributed to the increased revenues.

MVAS revenues increased 4.8% QoQ to RMB206.0 million and represented 23.8% of the total revenues in the second quarter of 2007. This increase reflected increased revenues as Tencent bundled SMS and other value-added services into a value package. The increase in revenues was partially offset by a decrease in revenues relating to mobile voice VAS due to a decrease in music-related revenues and a decrease in revenues relating to 2.5G business as the Company decreased promotion activities in response to stricter regulations and guidelines in the form of content control, confirmation of existing user subscriptions and cost notifications for WAP usage.

Online Advertising revenues increased 54.7% QoQ to RMB114.6 million and represented 13.2% of total revenues in the second quarter of 2007, mainly reflecting the second quarter’s stronger seasonality compared to the first quarter. In addition, Tencent’s expanded online advertising team and stronger trade relationships have enabled the Company to grow its advertising revenue.

### **Financials**

Gross profit for the second quarter of 2007 was RMB602.0 million, an increase of 12.4% QoQ or an increase of 19.0% YoY. Gross margin was 69.4% compared with 69.3% in the previous quarter. Operating profit for the second quarter was RMB362.4 million, an increase of 10.7% QoQ or an increase of 16.9% YoY. Operating margin decreased to 41.8% compared with 42.3% in the previous quarter. Net profit for the second quarter was RMB334.5 million, an increase of 15.3% QoQ or an increase of 24.9% YoY. Net margin increased to 38.5% compared with 37.5% in the previous quarter. Basic earnings per share were RMB0.188. Diluted earnings per share were RMB0.183.

Share-based compensation was RMB21.6 million for the second quarter of 2007 as compared with RMB18.8 million for the previous quarter. Foreign exchange loss for the second quarter, as a result of Renminbi appreciation, was RMB16.2 million as compared with RMB12.0 million for the previous quarter.

## **Outlook**

In the second quarter of 2007, Tencent's diversified business portfolio generated solid financial performance. While certain Internet value-added services, such as QQ Show and some online games, declined due to product maturity and weaker seasonality compared to the first quarter, revenues from other services increased to generate overall quarter-on-quarter growth. In particular, advertising revenue increased significantly due to stronger seasonality. Qzone and QQ Game Portal revenues also increased due to more usage and better monetization. Stepping into the summer season, Tencent expects that some of its entertainment-related Internet value-added services will benefit from the summer school holidays as students will have more time to spend online, while its wireless value added services will face pressure as regulatory environment becomes more challenging.

In its IM platform, Tencent has continued account security enhancement and anti-spamming efforts. These efforts have resulted in a securer and healthier environment for the users. At the same time, Tencent has also been working to enhance the IM platform's performance, basic functionalities and integration with the Company's other Internet services such as Qzone and QQ Mail. As a result of these initiatives, Tencent has witnessed healthy growth in its IM user metrics, which is continuing into the summer season.

Tencent's QQ.com portal platform also generated solid growth in terms of page views, driven by growth in its Qzone, entertainment, news, sports and lady channels. The Company's branding program to enhance the recognition and profile of QQ.com was well underway with branding advertisements placed in strategic outdoor locations across Beijing and Shanghai. In addition, Tencent continued to be involved in high profile events to showcase its brand. For example, in April, Tencent was selected as the exclusive Internet media partner to Bo'ao Forum, a high profile economic forum held in Hainan. Stepping into July, Tencent has announced a comprehensive reporting program for the 2008 Beijing Olympic Games. The Company believes its investments in branding and contents of QQ.com are beginning to pay off as demonstrated in the growth of both traffic and advertising revenue.

In community-oriented Internet value-added services, Qzone continued to grow in terms of usage and monetization. Tencent introduced new applications such as celebrity Qzone on this platform, which has generated encouraging response from both celebrities and general users. Going forward, the Company will continue to improve the speed and performance of the service, as well as introduce more applications to provide richer experience to the large Qzone user base. In terms of QQ Show, Tencent is on track to introduce beta tests of product upgrade for the third quarter. For QQ Pet, Tencent has been working on a new pet, the Piggy, for introduction in the second half of the year, which the Company believes will add variety to its online pet service.

In the area of online gaming Internet value-added services, QQ Game was relatively flat in terms of concurrent users, but monetization improved as Tencent introduced more functionalities such as richer in-game avatars. In MMOG, revenue from QQ Fantasy continued to decline due to aging and competition from new titles. Tencent has started to sell items in addition to collecting time-based charges, which helped to mitigate revenue decline to a certain degree. Tencent is planning to convert the game into a more item-based model going forward. During the second quarter, the Company co-launched QQ Huaxia, a hard-core MMOG, along with SZ Domain, an investee company of Tencent. The Company also launched its self-developed light MMOG QQ San Guo in July. Tencent expects these two games to generate incremental revenue for the third quarter. In advanced casual game, Tencent's existing games suffered from a weak season. The Company is currently planning to launch two advanced casual games, one licensed and one self-developed, during the second half. Tencent is also working to further strengthen its pipeline through self-development and licensing from third-party studios.

In mobile and telecommunication value-added services, Tencent continued to face an increasingly challenging industry environment as more restrictions were introduced by regulators and operators to limit promotional activities and content. In response, Tencent has been bundling its services into more valuable subscription packages in order to increase user loyalty and attract new users. On July 1, Fetion QQ, a mobile chat service that Tencent jointly developed with China Mobile's Fetion mobile IM platform, was launched on schedule. Tencent is working hard to transfer its Mobile QQ users to Fetion QQ smoothly, aiming to reduce the loss of users in such transition. The Company expects its mobile and telecommunication value-added service to face increasing revenue pressure in the coming quarters. On a more positive note, Tencent's wireless WAP portal has seen continued growth as a result of general industry growth and the Company's efforts to improve its content.

In online advertising business, Tencent experienced strong quarterly growth due to favorable seasonality and better execution of the advertising sales team. The Company believes there is still significant untapped potential to increase the monetization of Tencent's large user base and leading Internet assets through advertising over the long run. The Company will be focusing on building its sales team, its relationship with key customers and channel partners, and its technology platform to deliver better and more effective online advertising solutions to its customers.

###

## 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	
	2Q2007	1Q2007	2Q2007	2Q2006
<b>Revenues</b>	<b>868,016</b>	<b>773,061</b>	<b>868,016</b>	<b>704,981</b>
Internet VAS	546,235	501,787	546,235	462,260
Mobile & Telecom VAS	206,036	196,544	206,036	178,355
Online Advertising	114,599	74,068	114,599	62,972
Others	1,146	662	1,146	1,394
<b>Cost of revenues</b>	<b>(266,041)</b>	<b>(237,519)</b>	<b>(266,041)</b>	<b>(199,035)</b>
<b>Gross profit</b>	<b>601,975</b>	<b>535,542</b>	<b>601,975</b>	<b>505,946</b>
<i>Gross margin</i>	<b>69.4%</b>	<b>69.3%</b>	<b>69.4%</b>	<b>71.8%</b>
Other gains, net	23,315	34,013	23,315	21,357
S&M expenses	(70,870)	(70,210)	(70,870)	(74,838)
G&A expenses	(192,017)	(171,977)	(192,017)	(142,440)
<b>Operating profit</b>	<b>362,403</b>	<b>327,368</b>	<b>362,403</b>	<b>310,025</b>
<i>Operating margin</i>	<b>41.8%</b>	<b>42.3%</b>	<b>41.8%</b>	<b>44.0%</b>
Finance costs, net	(16,690)	(12,505)	(16,690)	(6,537)
Profit before income tax	345,713	314,863	345,713	303,488
Income tax expenses	(11,227)	(24,694)	(11,227)	(35,599)
<b>Profit for the period</b>	<b>334,486</b>	<b>290,169</b>	<b>334,486</b>	<b>267,889</b>
<i>Net margin</i>	<b>38.5%</b>	<b>37.5%</b>	<b>38.5%</b>	<b>38.0%</b>
<b>Earnings per share</b>				
- basic (RMB)	0.188	0.164	0.188	0.151
- diluted (RMB)	0.183	0.158	0.183	0.147

**CONDENSED CONSOLIDATED BALANCE SHEET**

In RMB '000 (unless otherwise stated)

	Unaudited 30 June 2007	Unaudited 31 March 2007
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	739,955	617,191
Construction in progress	49,994	17,916
Leasehold land and land use rights	9,916	9,967
Intangible assets	168,461	173,606
Held-to-maturity investments	76,155	77,342
Deferred income tax assets	141,848	123,642
Available-for-sale financial assets	59,974	56,440
	<u>1,246,303</u>	<u>1,076,104</u>
<b>Current assets</b>		
Inventories	1,776	2,426
Accounts receivable	491,821	456,633
Prepayments, deposits and other receivables	193,746	105,204
Financial assets held for trading	245,278	294,018
Held-to-maturity investments	228,465	232,026
Term deposits with initial term of over three months	914,784	1,092,633
Cash and cash equivalents	1,839,775	1,690,570
	<u>3,915,645</u>	<u>3,873,510</u>
<b>Total Assets</b>	<u><b>5,161,948</b></u>	<u><b>4,949,614</b></u>
<b>EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital	194	193
Share premium	1,509,906	1,480,192
Share-based compensation reserve	158,892	137,068
Other reserves	86,469	86,469
Retained earnings	2,468,441	2,344,166
	<u>4,223,902</u>	<u>4,048,088</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	22,337	22,782
Long term payable	-	48,677
	<u>22,337</u>	<u>71,459</u>
<b>Current liabilities</b>		
Accounts payable	82,836	61,222
Other payables and accruals	432,077	369,906
Current income tax liabilities	52,282	40,543
Other tax liabilities	31,518	51,072
Deferred revenue	316,996	307,324
	<u>915,709</u>	<u>830,067</u>
<b>Total Liabilities</b>	<u><b>938,046</b></u>	<u><b>901,526</b></u>
<b>Total Equity and Liabilities</b>	<u><b>5,161,948</b></u>	<u><b>4,949,614</b></u>