

**For Immediate Release**

**TENCENT ANNOUNCES 2011 FIRST QUARTER RESULTS**

**Hong Kong, May 11, 2011** – 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 first quarter of 2011 ended March 31, 2011.

***Highlights of the first quarter of 2011:***

- § Total revenues were RMB6,338.4 million (USD966.8 million<sup>1</sup>), an increase of 14.7% over the fourth quarter of 2010 (“QoQ”) or an increase of 50.0% over the first quarter of 2010 (“YoY”)
- § Revenues from Internet value-added services (“IVAS”) were RMB5,251.3 million (USD800.9 million), an increase of 19.8% QoQ or an increase of 55.0% YoY
- § Revenues from mobile & telecommunications value-added services (“MVAS”) were RMB777.8 million (USD118.6 million), an increase of 6.8% QoQ or an increase of 25.8% YoY
- § Revenues from online advertising were RMB280.9 million (USD42.8 million), a decrease of 27.6% QoQ or an increase of 37.5% YoY
- § Gross profit was RMB4,144.7 million (USD632.2 million), an increase of 12.3% QoQ or an increase of 43.0% YoY. Gross margin decreased to 65.4% from 66.8% last quarter
- § Operating profit was RMB3,386.5 million (USD516.5 million), an increase of 27.7% QoQ or an increase of 57.6% YoY. Operating margin increased to 53.4% from 48.0% last quarter  
Non-GAAP operating profit<sup>2</sup> was RMB3,119.9 million (USD475.9 million), an increase of 11.0% QoQ or an increase of 38.1% YoY. Non-GAAP operating margin decreased to 49.2% from 50.9% last quarter
- § Profit for the period was RMB2,884.2 million (USD439.9 million), an increase of 30.3% QoQ or an increase of 60.0% YoY. Net margin increased to 45.5% from 40.1% last quarter  
Non-GAAP profit for the period<sup>2</sup> was RMB2,601.6 million (USD396.8 million), an increase of 9.8% QoQ or an increase of 36.1% YoY. Non-GAAP net margin decreased to 41.0% from 42.9% last quarter
- § Profit attributable to equity holders of the Company for the period was RMB2,870.4 million (USD437.8 million), an increase of 30.4% QoQ or an increase of 61.0% YoY  
Non-GAAP profit attributable to equity holders of the Company for the period<sup>2</sup> was RMB2,584.7 million (USD394.2 million), an increase of 9.7% QoQ or an increase of 36.8% YoY
- § Basic earnings per share for the quarter were RMB1.575, and diluted earnings per share were RMB1.540.
- § Key platform statistics:
  - Active Instant Messaging (“IM”) user accounts increased 4.1% QoQ to 674.3 million
  - Peak simultaneous online IM user accounts increased 7.6% QoQ to 137.2 million
  - Active Qzone user accounts increased 2.6% QoQ to 504.8 million; active Pengyou user accounts increased 19.9% QoQ to 101.4 million

<sup>1</sup> Figures stated in USD are based on USD1 to RMB6.5564

<sup>2</sup> see “Non-GAAP Financial Measures” section for more details on the reasons for presenting these measures

- Peak simultaneous online QQ Game (for mini casual games only) user accounts increased 13.2% QoQ to 7.7 million
- Fee-based IVAS registered subscriptions increased 10.0% QoQ to 72.3 million
- Fee-based MVAS registered subscriptions increased 10.6% QoQ to 27.2 million

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “During the first quarter in 2011, we performed well in both operational and financial metrics, mainly benefiting from a strong holiday season. On the strategic front, we have strengthened our franchise in social networking services through continued growth of Qzone and Pegyoyou, as well as made marked progress in growing our microblog service in terms of both user base and user activeness.

“Looking forward, we remain committed to making significant investments in our existing core businesses and new strategic initiatives including microblog, e-commerce, search, online security, online video and international expansion. Although these investments will put pressure on our short-term financial performance, we believe they are necessary for our long-term competitiveness. As the competitive landscape of the Internet industry evolves rapidly, we have also been accelerating our open platform strategy to collaborate with more industry partners and to introduce more third-party applications onto our platforms. Through these continuous efforts, we aim to drive long-term business growth and help build a healthier ecosystem for the Internet industry as a whole.”

## Financial Review for the First Quarter of 2011

IVAS revenues increased 19.8% QoQ to RMB5,251.3 million and represented 82.8% of our total revenues for the first quarter of 2011. Online gaming revenues increased 28.2% QoQ to RMB3,572.7 million, primarily reflecting increased monetisation of our major online games during the Chinese New Year holidays and winter break for students. Cross Fire registered strong revenue growth in the quarter and underpinned the growth in online gaming revenues. Growth in DNF and Qi Xiong Zheng Ba, as well as contribution from World of West, a hardcore 3D fantasy MMOG launched in the first quarter of the year, also contributed to the increase in online gaming revenues. For our community value-added services, revenues increased 5.1% QoQ to RMB1,678.6 million. Qzone benefited from growth in item-based revenues driven by an increased number of third-party social applications offered on the platform. Revenues from QQ Membership increased primarily as a result of enhanced privileges and valued-added functions as well as positive seasonality. As for QQ Show, revenues were broadly stable compared to the previous quarter.

MVAS revenues increased 6.8% QoQ to RMB777.8 million and represented 12.3% of our total revenues. This primarily reflected growth in revenues from our bundled SMS packages as a result of promotional activities launched during the holiday period, as well as an increase in revenues from mobile SNS and mobile games. On the other hand, the regulation of requiring service providers to conduct double confirmation plus reminder services for monthly subscription and item sales continued to impact our MVAS revenues.

Online advertising revenues decreased 27.6% QoQ to RMB280.9 million and represented 4.4% of

our total revenues. This primarily reflected weaker seasonality due to reduced activities of advertisers around the Chinese New Year holidays.

### **Other Key Financial Information for the First Quarter of 2011**

Share-based compensation was RMB144.1 million for the first quarter of 2011 as compared with RMB144.2 million for the previous quarter.

Capital expenditure was RMB720.8 million for the first quarter of 2011 as compared with RMB481.0 million for the previous quarter.

The Company repurchased 400,000 shares on the Stock Exchange for an aggregate consideration of approximately RMB63.7 million before expenses as compared with 2,624,000 shares repurchased for an aggregate consideration of approximately RMB310.2 million for the previous quarter.

Donation made to the Tencent Charity Fund was RMB100.0 million for the first quarter of 2011. No donation was made for the previous quarter.

As at March 31, 2011, net cash position totaled RMB18,129.2 million which excluded unsecured short-term borrowings of RMB4,923.9 million.

The total number of shares of the Company in issue was 1.837 billion.

### **Business Review and Outlook**

In the first quarter of 2011, our IVAS business benefited from increased monetisation of our major online games during the Chinese New Year holidays and winter break for students. Our community value-added services also registered growth. For MVAS, the business expanded further on the back of growth in our bundled SMS packages, mobile SNS and mobile games. Our online advertising business experienced sequential decline in revenues, reflecting weaker seasonality in the first quarter driven by reduced activities of advertisers around the Chinese New Year holidays. For the second quarter of 2011, we expect weaker seasonality for IVAS mainly due to school examinations and fewer school holidays. This negative seasonality may be more severe than previous years as a higher percentage of our revenues is based on item sale and such item-based revenues are more prone to seasonal fluctuation than subscription-based revenues. With an uncertain regulatory environment and impact of new policies, visibility of our MVAS business would remain low. Our online advertising business is expected to benefit from stronger seasonality in the second quarter. As we previously indicated, we have entered into a new investment phase, during which we will make significant investments in our existing platforms and new strategic initiatives. We will continue to increase our strategic investments in areas that include microblog, e-commerce, search, online security, online video and international expansion.

### **IM Platform**

Our IM platform benefited from positive seasonality and increasing penetration of mobile Internet in China. At the end of the first quarter of 2011, active user accounts reached 674.3 million, representing a quarter-on-quarter growth of 4.1%. PCU for the quarter grew by 7.6% to 137.2 million. Looking ahead, we expect the growth of our IM platform to slow down with the growing scale of Internet users in China as well as the reducing number of users maintaining multiple accounts to play our social games QQ Farm and QQ Ranch, as these games become more mature.

### **QQ.com**

In the first quarter of 2011, QQ.com continued to register healthy growth in traffic, consolidating its position as the leading Internet portal in China. During the quarter, we continued to improve the content quality and user experience of QQ.com. In addition, we focused on developing deeper integration with our microblog so as to unleash cross-platform synergies.

### **IVAS**

Our community value-added services registered growth in the first quarter of 2011 on the back of positive seasonality and recovery in the growth of subscribers following the significant security attack that we encountered in the previous quarter. For Qzone, active user accounts grew by 2.6% on a quarter-on-quarter basis to 504.8 million at the end of the quarter. However, the year-on-year growth rate decreased, mainly reflecting the growing scale of its user base as well as the maturity of QQ Farm and QQ Ranch which resulted in a reduced number of users maintaining multiple accounts. Qzone also registered growth in item-based revenues in the quarter as more third-party applications were available on the platform. Pengyou, the largest real-name SNS platform for university students and white collar communities in China, experienced continued growth with active user accounts increasing sequentially by 19.9% to 101.4 million at the end of the quarter. For our microblog, registered user accounts have exceeded 160 million. We are focusing on growing our user base and increasing user activeness through introducing more celebrity microblogs and enriching premium content. We have also launched significant marketing programs to promote the brand awareness of our microblog. As for QQ Membership, the first quarter of 2011 saw solid growth in subscription base as we enriched functionalities, broadened lifestyle privileges and focused on cross-platform promotions. QQ Show was helped by special promotions during the Chinese New Year holidays and registered modest growth.

In the first quarter of 2011, our online gaming business benefited from increased monetisation of our major advanced casual games and MMOGs during the holiday periods. Riding on the introduction of new play modes, Cross Fire registered significant growth in PCU and revenues during the quarter. New content and in-game promotions for DNF were also launched to increase usage and stickiness. For QQ Game, PCU reached a historical high level of 7.7 million, mainly driven by launch of new play modes for major games, enhanced cross-platform integration and, to a lesser extent, positive impact of holidays. In addition, we continued to implement our strategy of diversifying our game portfolio through identifying attractive yet differentiated genres. Qi Xiong Zheng Ba, a major title in the web game sector, continued to register growth in user base and

revenues during the quarter. Meanwhile, Roco Kingdom has become a leading online game in the children segment with its PCU increasing to 400,000. We are aiming to launch more titles along this strategy of differentiation.

### **MVAS**

Our bundled SMS packages, mobile SNS and mobile games experienced solid growth in the first quarter of 2011. Our WAP portal continued to register significant traffic increase as we enhanced content and user experience. Looking ahead, we will continue to extend our PC-based services, including SNS and microblog, to different wireless platforms and customise our applications for a larger variety of terminal devices. On regulatory front, a new service cancellation policy, which is an extension to the “double confirmation plus reminder” rule, has been introduced. We expect that the resultant negative impact would affect the business in the next few quarters.

### **Online advertising**

Due to weaker seasonality in the first quarter, our online advertising business experienced sequential decline in revenues. Compared to the same period of last year, the business registered solid growth, riding on our expanded client base, enhanced media influence and improved awareness of the strengths of our platforms. During the quarter, we launched a major corporate brand advertising campaign to enhance our corporate image, which is expected to benefit our advertising business over the longer term. We are also stepping up our investments in bandwidth and content acquisition to position ourselves for the opportunities in video advertising. User base of QQ Live has registered healthy growth with PCU for the first quarter of 2011 reaching 4.5 million, representing a quarter-on-quarter growth of 21.6%. In March 2011, a web-based version of QQ Live was launched to offer a more convenient channel for users to access our video content. With our significant traffic on multiple platforms, we believe our investments in building our content, branding, technology and advertising team will bear fruit for our advertising business over the long run.

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## **About Tencent**

Tencent aims to enrich the interactive online experience of Internet users 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, the QQ Game platform under Tencent Games, 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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## **Non-GAAP Financial Measures**

To supplement the consolidated results of the Company prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin and non-GAAP profit attributable to equity holders of the Company, have been presented in this press release. These non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Company's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Company's core operations by excluding certain non-cash items and certain impact of acquisitions.

## **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 Company and are stated herein on the basis of the outlook at the time of this press release. 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 INCOME STATEMENT

In RMB '000 (unless otherwise stated)

	Unaudited		Unaudited	
	1Q2011	4Q2010	1Q2011	1Q2010
<b>Revenues</b>	<b>6,338,420</b>	<b>5,524,163</b>	<b>6,338,420</b>	<b>4,226,060</b>
Internet VAS	5,251,282	4,383,940	5,251,282	3,387,377
Mobile & Telecom VAS	777,792	728,516	777,792	618,238
Online Advertising	280,894	388,126	280,894	204,334
Others	28,452	23,581	28,452	16,111
<b>Cost of revenues</b>	<b>(2,193,729)</b>	<b>(1,832,362)</b>	<b>(2,193,729)</b>	<b>(1,328,355)</b>
<b>Gross profit</b>	<b>4,144,691</b>	<b>3,691,801</b>	<b>4,144,691</b>	<b>2,897,705</b>
<b>Gross margin</b>	<b>65.4%</b>	<b>66.8%</b>	<b>65.4%</b>	<b>68.6%</b>
Interest income	100,662	79,467	100,662	57,191
Other gains/ (losses), net	339,069	23,437	339,069	(35,275)
S&M expenses	(300,453)	(301,796)	(300,453)	(185,417)
G&A expenses	(897,466)	(840,407)	(897,466)	(585,766)
<b>Operating profit</b>	<b>3,386,503</b>	<b>2,652,502</b>	<b>3,386,503</b>	<b>2,148,438</b>
<b>Operating margin</b>	<b>53.4%</b>	<b>48.0%</b>	<b>53.4%</b>	<b>50.8%</b>
Finance (costs)/income, net	(3,869)	265	(3,869)	(1,558)
Share of profit of associates	37,854	37,127	37,854	12,913
Share of (loss)/profit of jointly controlled entities	(4,297)	3,399	(4,297)	-
<b>Profit before income tax</b>	<b>3,416,191</b>	<b>2,693,293</b>	<b>3,416,191</b>	<b>2,159,793</b>
Income tax expense	(531,983)	(480,011)	(531,983)	(357,375)
<b>Profit for the period</b>	<b>2,884,208</b>	<b>2,213,282</b>	<b>2,884,208</b>	<b>1,802,418</b>
<b>Net margin</b>	<b>45.5%</b>	<b>40.1%</b>	<b>45.5%</b>	<b>42.7%</b>
<b>Attributable to:</b>				
Equity holders of the Company	2,870,374	2,200,818	2,870,374	1,783,194
Non-controlling interests	13,834	12,464	13,834	19,224
Non-GAAP profit attributable to equity holders of the Company	2,584,720	2,356,624	2,584,720	1,889,885
<b>Earnings per share (GAAP)</b>				
- basic (RMB)	1.575	1.209	1.575	0.984
- diluted (RMB)	1.540	1.182	1.540	0.959

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In RMB '000 (unless otherwise stated)

	Unaudited		Unaudited	
	1Q2011	4Q2010	1Q2011	1Q2010
<b>Profit for the period</b>	<b>2,884,208</b>	<b>2,213,282</b>	<b>2,884,208</b>	<b>1,802,418</b>
<b>Other comprehensive income:</b>				
(Losses)/income from changes in fair value of available-for-sale financial assets	(682,436)	1,821,129	(682,436)	-
Currency translation differences	207	-	207	-
<b>Total comprehensive income for the period</b>	<b>2,201,979</b>	<b>4,034,411</b>	<b>2,201,979</b>	<b>1,802,418</b>
<b>Attributable to:</b>				
Equity holders of the Company	2,188,145	4,021,947	2,188,145	1,783,194
Non-controlling interests	13,834	12,464	13,834	19,224



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB '000 (unless otherwise stated)

	Unaudited	Audited
	31 March 2011	31 December 2010
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	4,095,980	3,292,828
Construction in progress	17,682	386,943
Investment properties	37,043	37,229
land use rights	228,711	229,890
Intangible assets	3,097,395	572,981
Investment in associates	1,713,489	1,070,633
Investment in jointly controlled entities	71,245	74,542
Deferred income tax assets	204,495	219,019
Available-for-sale financial assets	3,635,123	4,126,878
Prepayments, deposits and other assets	490,926	445,430
	<u>13,592,089</u>	<u>10,456,373</u>
<b>Current assets</b>		
Accounts receivable	2,070,013	1,715,412
Prepayments, deposits and other assets	682,210	487,872
Term deposits with initial term of over three months	12,170,143	11,725,743
Restricted cash	2,330,410	1,036,457
Cash and cash equivalents	10,882,954	10,408,257
	<u>28,135,730</u>	<u>25,373,741</u>
<b>Total assets</b>	<u>41,727,819</u>	<u>35,830,114</u>
<b>EQUITY</b>		
<b>Equity attributable to the Company's equity holders</b>		
Share capital	198	198
Share premium	1,049,294	1,100,302
Shares held for share award scheme	(346,988)	(258,137)
Share-based compensation reserve	1,343,923	1,199,663
Other reserves	566,481	1,919,695
Retained earnings	20,665,599	17,795,225
	<u>23,278,507</u>	<u>21,756,946</u>
<b>Non-controlling interests</b>	<u>284,838</u>	<u>83,912</u>
<b>Total equity</b>	<u>23,563,345</u>	<u>21,840,858</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	858,315	967,211
Long-term payables	980,214	-
	<u>1,838,529</u>	<u>967,211</u>
<b>Current liabilities</b>		
Accounts payable	2,046,669	1,380,464
Other payables and accruals	2,844,696	2,997,808
Derivative financial instruments	39,338	17,964
Short-term bank borrowings	7,131,801	5,298,947
Current income tax liabilities	452,768	341,103
Other tax liabilities	346,115	225,188
Deferred revenue	3,464,558	2,760,571
	<u>16,325,945</u>	<u>13,022,045</u>
<b>Total liabilities</b>	<u>18,164,474</u>	<u>13,989,256</u>
<b>Total equity and liabilities</b>	<u>41,727,819</u>	<u>35,830,114</u>

## RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

<i>In RMB '000 except percentages</i>	As reported	Adjustments				Non-GAAP
		Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group	
<b>Unaudited three months ended 31 March 2011*</b>						
Operating profit	3,386,503	144,123	(459,037)	39,230	9,091	3,119,910
<i>Operating margin</i>	<i>53.4%</i>					<i>49.2%</i>
Profit for the period	2,884,208	144,123	(459,037)	23,229	9,091	2,601,614
<i>Net margin</i>	<i>45.5%</i>					<i>41.0%</i>
Profit attributable to equity holders of the Company	2,870,374	143,121	(459,037)	21,827	8,435	2,584,720
<b>Unaudited three months ended 31 December 2010</b>						
Operating profit	2,652,502	144,159	-	13,167	-	2,809,828
<i>Operating margin</i>	<i>48.0%</i>					<i>50.9%</i>
Profit for the period	2,213,282	144,159	-	11,726	-	2,369,167
<i>Net margin</i>	<i>40.1%</i>					<i>42.9%</i>
Profit attributable to equity holders of the Company	2,200,818	144,159	-	11,647	-	2,356,624
<b>Unaudited three months ended 31 March 2010</b>						
Operating profit	2,148,438	100,972	-	9,513	-	2,258,923
<i>Operating margin</i>	<i>50.8%</i>					<i>53.5%</i>
Profit for the period	1,802,418	100,972	-	7,759	-	1,911,149
<i>Net margin</i>	<i>42.7%</i>					<i>45.2%</i>
Profit attributable to equity holders of the Company	1,783,194	100,972	-	5,719	-	1,889,885

\* Note: The figures above include the impact of the Riot Games Acquisition which was closed on 18 February 2011.