

For Immediate Release

TENCENT ANNOUNCES 2010 SECOND QUARTER AND INTERIM RESULTS

Hong Kong, August 11, 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 second quarter and the first half year of 2010 ended June 30, 2010.

Highlights for the First Half of 2010:

- § Total revenues were RMB8,895.2 million (USD1,309.9 million¹), an increase of 65.3% over the first half of year ended June 30, 2009 (“YoY”)
- § Revenues from Internet value-added services (“IVAS”) were RMB6,969.4 million (USD1,026.3 million), an increase of 71.6% YoY
- § Revenues from mobile & telecommunications value-added services (“MVAS”) were RMB1,292.4 million (USD190.3 million), an increase of 42.1% YoY
- § Revenues from online advertising were RMB601.9 million (USD88.6 million), an increase of 54.5% YoY
- § Gross profit was RMB6,083.9 million (USD895.9 million), an increase of 66.1% YoY. Gross margin increased to 68.4% from 68.0% for the first half of 2009.
- § Operating profit was RMB4,519.8 million (USD665.6 million), an increase of 76.3% YoY. Operating margin increased to 50.8% from 47.6% for the first half of 2009.
- § Profit for the period was RMB3,733.6 million (USD549.8 million), an increase of 65.5% YoY. Net margin increased to 42.0% from 41.9% for the first half of 2009.
- § Profit attributable to equity holders of the Company was RMB3,699.7 million (USD544.8 million), an increase of 66.1% YoY
- § Basic earnings per share were RMB2.039. Diluted earnings per share were RMB1.990.

Highlights for the Second Quarter of 2010:

- § Total revenues were RMB4,669.2 million (USD687.6 million), an increase of 10.5% over the first quarter of 2010 (“QoQ”) or an increase of 62.2% over the second quarter of 2009 (“YoY”)
- § Revenues from IVAS were RMB3,582.0 million (USD527.5 million), an increase of 5.7% QoQ or an increase of 66.1% YoY
- § Revenues from MVAS were RMB674.1 million (USD99.3 million), an increase of 9.0% QoQ or an increase of 43.4% YoY
- § Revenues from online advertising were RMB397.5 million (USD58.5 million), an increase of 94.5% QoQ or an increase of 63.6% YoY
- § Gross profit was RMB3,186.2 million (USD469.2 million), an increase of 10.0% QoQ or an increase of 63.9% YoY. Gross margin decreased to 68.2% from 68.6% last quarter
- § Operating profit was RMB2,371.4 million (USD349.2 million), an increase of 10.4% QoQ or an increase of 69.5% YoY. Operating margin remained at 50.8%, same as last quarter

¹ Figures stated in USD are based on USD1 to RMB6.7909

- § Profit for the period was RMB1,931.2 million (USD284.4 million), an increase of 7.1% QoQ or an increase of 60.7% YoY. Net margin decreased to 41.4% from 42.7% last quarter
- § Profit attributable to equity holders of the Company was RMB1,916.5 million (USD282.2 million), an increase of 7.5% QoQ or an increase of 60.7% YoY
- § Key platform statistics:
- Active Instant Messaging (“IM”) user accounts increased 7.7% QoQ to 612.5 million
 - Peak simultaneous online user accounts for IM services increased 3.9% QoQ to 109.4 million
 - Active user accounts of Qzone increased 7.1% QoQ to 458.5 million
 - Peak simultaneous online user accounts of QQ Game portal (for mini casual games only) decreased 8.8% QoQ to 6.2 million
 - IVAS paying subscriptions increased 5.5% QoQ to 63.2 million
 - MVAS paying subscriptions increased 3.4% QoQ to 24.1 million

Mr. Ma Huateng, Chairman and CEO of Tencent, said, “We achieved solid operating and financial results in the second quarter. In particular, our advertising business achieved significant growth, leveraging our sponsorship of World Expo and our extensive coverage of the World Cup. This demonstrated that our QQ.com portal has been gaining higher brand awareness and recognition among advertisers. On the other hand, though we managed to achieve growth for our online gaming business, we expect lower year-on-year growth rate in this business going forward due to our already large revenue base, slower overall industry growth and more competition. To overcome the challenge, we will step up our efforts in talent development, product innovation and partnership to deliver higher value and more differentiated products to our users.”

Financial Review for the Second Quarter of 2010

IVAS revenues increased 5.7% QoQ to RMB3,582.0 million and represented 76.7% of the total revenues in the second quarter of 2010. Online gaming revenues increased 5.9% QoQ to RMB2,142.7 million despite weaker seasonality. This was mainly driven by increased monetization of Cross Fire, as well as revenue contribution from recently launched MMOGs. Revenues from our community value-added services increased by 5.5% to RMB1,439.3 million. QQ Membership benefited from growth in monthly subscriptions, largely due to enriched online and offline privileges. Revenues from Qzone increased with improved user loyalty and stickiness, mainly fueled by enhancements in bundled privileges relating to social games. Revenues from QQ Show also increased as we continued to enhance the user value and experience of the product.

MVAS revenues increased 9.0% QoQ to RMB674.1 million and represented 14.4% of the total revenues in the second quarter of 2010. This was primarily driven by growth in the user base of our bundled SMS packages as we enhanced privileges and features. Revenues from mobile social games also increased.

Online advertising revenues increased 94.5% QoQ to RMB397.5 million and represented 8.5% of the total revenues in the second quarter of 2010. This primarily reflected favourable seasonality in the second quarter, as well as our focus on leveraging major events, including the World Cup and the World Expo, to generate business opportunities.

Other Key Financial Information for the Second Quarter of 2010

Share-based compensation was RMB119.6 million for the second quarter of 2010 as compared with RMB101.0 million for the previous quarter.

Finance costs were RMB3.0 million for the second quarter of 2010 as compared with RMB1.6 million for the previous quarter.

Capital expenditure was RMB566.0 million for the second quarter of 2010 as compared with RMB366.6 million for the previous quarter.

Basic earnings per share for the quarter were RMB1.054, and diluted earnings per share were RMB1.031.

As at June 30, 2010, cash and cash equivalents and term deposits with initial term of over three months totaled RMB13,908.4 million. The total number of shares of the Company in issue was 1.830 billion.

Business Review and Outlook

In the second quarter of 2010, we achieved solid financial and operating performance, riding on the growth of our Internet platforms. Our IVAS registered revenue growth, mainly driven by increased monetisation of Cross Fire, contributions from our recently launched online games and growth of our community value-added services. Our MVAS experienced a healthy revenue increase as well, largely due to an expansion of the user base of our bundled SMS packages. Our online advertising business grew significantly during the quarter, mainly due to favourable seasonality and our successful leveraging of major events, including the World Cup and the World Expo, to generate advertising opportunities. Looking into the third quarter of 2010, we expect online games within our IVAS business to benefit from positive seasonality due to summer school holidays. However, the year-on-year growth rate of the overall IVAS business is expected to slow down compared to the previous year as it already has reached a relatively larger revenue base. For MVAS, the regulatory environment is still uncertain. For example, a new rule that requires service providers to conduct double confirmation plus reminder services for monthly subscriptions has been announced recently. In addition, competition on the mobile Internet front will continue to intensify. On the other hand, business models in the industry remain underdeveloped as mobile Internet in China is still in a relatively early stage of development.

IM Platform

The quarter saw a steady growth in the user base of our core IM platform, with active user accounts and peak concurrent user accounts increasing to 612.5 million and 109.4 million respectively. User activeness also increased, mainly due to growing usage of our IM services on mobile devices. We expect that going forward mobile Internet will become an increasingly important driver for the

expansion of our IM user base as a result of the fast growing mobile Internet user base in China. On the other hand, as the growth of our current major social games is slowing down, the contribution from social networking services ("SNS") applications to our IM user growth will decrease.

QQ.com

QQ.com has continued to enhance its market recognition and media influence in the second quarter, leveraging coverage and sponsorship related to the World Cup and the World Expo, as well as our brand advertising campaigns for these two major events.

For the World Cup, QQ.com offered a wide range of compelling content, including video clips for all matches and interviews with popular players, experts and professionals. In addition, we leveraged the integration between QQ.com and other platforms of Tencent, such as IM and Qzone, to deliver an innovative and interactive World Cup experience to users. A major TV advertising campaign for the World Cup was also launched to increase awareness of our services and reinforce our brand position. As a result of such efforts, QQ.com was ranked number one among major portals in China, in terms of traffic generated and user satisfaction for the event, according to the surveys by ComScore and Tsinghua University respectively. For the World Expo, as the exclusive Internet service sponsor of the event, we are responsible for the development, operation and maintenance of the official website, as well as the overall operation of the Online World Expo which, for the first time in the history of the Expo, allows people from all over the world to experience the Expo over the Internet. We have also introduced different products and campaigns to enhance public awareness and participation, including our Expo channel which provides comprehensive coverage of the event. Going forward, we will leverage the positive impact we made in these major events to further enhance the position of QQ.com as a mainstream media platform in China.

Internet value-added services

Our community value-added services registered growth in the second quarter. For QQ Membership, monthly subscription increased with improved user loyalty and stickiness. This reflected our continued efforts in enriching online and offline privileges associated with IM, online games, lifestyle services and e-commerce to increase user value. For SNS, active user accounts of Qzone increased to 458.5 million at the end of the second quarter of 2010, a growth of 7.1% compared to the previous quarter. This was primarily driven by the launch of promotional activities related to the fifth anniversary of Qzone. We also enhanced the attractiveness of our monthly subscription service by bundling more privileges related to SNS applications. In addition, we have enriched our offerings by introducing new third-party applications on Qzone and Xiaoyou, and commencing closed beta testing of QQ Restaurant, a self-developed social game which integrates with QQ Farm and QQ Ranch. As we have already accumulated a large user base of social games over the previous quarters, we

expect the positive impact of SNS applications to the active user base of Qzone will lessen over time. For QQ Show, monthly subscription continued to grow during the quarter as we increased marketing activities to promote the awareness of QQ Show among QQ users.

Our online game business registered modest growth during the second quarter. This was mainly driven by increased monetisation of Cross Fire as we launched new game items. Our recently launched game titles, namely Dragon Power, a hardcore 2D MMOG, and World of Fantasy, a self-developed MMOG, also contributed to the growth in revenues. QQ Game experienced modest growth in revenues during the quarter, although its PCU declined to 6.2 million due to fewer in-game promotions compared to the previous quarter and cannibalisation from social games. For Dungeon and Fighter, PCU and revenues declined slightly as a result of bot-fighting and weaker seasonality. Looking ahead, with slowing industry growth, intensifying competition and increasing sophistication of gamers, the success rate and extent of success for new game titles may decrease. In view of such challenges, we are extending the development process of our new games to upgrade content and quality. As a result, we are delaying QQ Xian Xia Zhuan to the end of 2010 or early 2011, and Feng Shen Ji to 2011. On the other hand, we believe that the online game industry will see more regulations as it becomes a significant component of China's cultural and entertainment industry. While some of these regulations might have impact on our business, the additional regulations should foster a healthier industry environment over the longer term.

Mobile and telecommunications value-added services

Our MVAS business registered healthy growth during the quarter as we enriched the privileges and features of our bundled SMS packages, and as the popularity of our mobile social games increased. Our WAP portal experienced an increase in traffic as a result of the growth in the overall market and our efforts to improve its content and user experience. To position ourselves for growth opportunities in the mobile Internet sector, we have been extending our PC-based services to mobile platforms and customising our applications for a larger variety of mobile devices.

Online advertising

In the second quarter of 2010, our online advertising business benefited from positive seasonality. We also focused on leveraging our Internet platforms and major events, including the World Cup and the World Expo, to generate advertising opportunities. As a result, our revenues and client base registered significant growth during the quarter, demonstrating increased market recognition of the strengths of our Internet platforms and our media influence. We believe that with the investments in our brand and major events, we are better positioned to exploit the growth opportunities in China's advertising market over the long term.

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	
		2Q2010	1Q2010	2Q2010	2Q2009
Revenues		4,669,180	4,226,060	4,669,180	2,878,423
Internet VAS		3,581,976	3,387,377	3,581,976	2,156,468
Mobile & Telecom VAS		674,120	618,238	674,120	470,003
Online Advertising		397,520	204,334	397,520	243,044
Others		15,564	16,111	15,564	8,908
Cost of revenues		(1,482,939)	(1,328,355)	(1,482,939)	(934,613)
Gross profit		3,186,241	2,897,705	3,186,241	1,943,810
	Gross margin	68.2%	68.6%	68.2%	67.5%
Interest income		54,005	57,191	54,005	27,520
Other gains/(losses), net		27,415	(35,275)	27,415	(2,192)
S&M expenses		(230,340)	(185,417)	(230,340)	(114,587)
G&A expenses		(665,961)	(585,766)	(665,961)	(455,629)
Operating profit		2,371,360	2,148,438	2,371,360	1,398,922
	Operating margin	50.8%	50.8%	50.8%	48.6%
Finance costs		(2,976)	(1,558)	(2,976)	(653)
Share of profit of associates		11,334	12,913	11,334	3,452
Profit before income tax		2,379,718	2,159,793	2,379,718	1,401,721
Income tax expense		(448,525)	(357,375)	(448,525)	(199,973)
Profit /Total comprehensive income for the period		1,931,193	1,802,418	1,931,193	1,201,748
	Net margin	41.4%	42.7%	41.4%	41.8%
Attributable to:					
Equity holders of the Company		1,916,502	1,783,194	1,916,502	1,192,410
Non-controlling interests		14,691	19,224	14,691	9,338
Earnings per share					
- basic (RMB)		1.054	0.984	1.054	0.662
- diluted (RMB)		1.031	0.959	1.031	0.647

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RMB '000 (unless otherwise stated)

	Unaudited	Unaudited
	30 June	31 March
	2010	2010
ASSETS		
Non-current assets		
Fixed assets	2,822,058	2,688,833
Construction in progress	179,678	123,824
Investment properties	67,613	67,703
Land use rights	232,248	35,109
Intangible assets	265,961	277,620
Investment in associates	799,982	612,856
Deferred income tax assets	272,708	286,862
Held-to-maturity investments	-	341,315
Available-for-sale financial assets	2,284,894	174,031
Prepayments, deposits and other assets	423,749	12,799
	7,348,891	4,620,952
Current assets		
Accounts receivable	1,710,749	1,610,069
Prepayments, deposits and other assets	401,819	431,937
Derivative financial instruments	17,578	-
Term deposits with initial term of over three months	7,422,082	6,673,010
Restricted cash	1,214,493	1,008,175
Cash and cash equivalents	6,486,312	6,795,966
	17,253,033	16,519,157
Total assets	24,601,924	21,140,109
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	198	197
Share premium	1,352,114	1,283,509
Shares held for share award scheme	(236,114)	(155,664)
Share-based compensation reserve	924,309	804,623
Other reserves	90,238	(66,030)
Retained earnings	13,449,624	12,297,564
	15,580,369	14,164,199
Non-controlling interests	60,174	112,672
Total equity	15,640,543	14,276,871
LIABILITIES		
Non-current liabilities		
Deferred income tax liabilities	481,517	403,229
Long-term payables	-	12,799
	481,517	416,028
Current liabilities		
Accounts payable	1,028,726	937,360
Other payables and accruals	1,994,316	1,793,618
Short-term bank borrowings	2,755,116	988,448
Current income tax liabilities	358,733	288,728
Other tax liabilities	173,308	272,939
Deferred revenue	2,169,665	2,166,117
	8,479,864	6,447,210
Total liabilities	8,961,381	6,863,238
Total equity and liabilities	24,601,924	21,140,109