

**For Immediate Release**

**TENCENT ANNOUNCES 2005 FIRST QUARTER RESULTS  
Internet Value-added Services Record Robust Growth**

Hong Kong, May 18, 2005 – 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 three months ended March 31 2005.

**Results Highlights for the First Quarter of 2005**

- Total revenues were RMB300.5 million (USD36.3 million), an increase of 16.7% YoY and a decrease of 4.5% QoQ.
- Revenues from Internet value-added service (IVAS) were RMB149.1 million (USD18.0 million), an increase of 42.5% YoY and an increase of 19.1% QoQ.
- Revenues from mobile & telecommunications value-added service (MVAS) were RMB134.3 million (USD16.2 million), a decrease of 6.0% YoY and a decrease of 20.4% QoQ.
- Revenues from online advertising were RMB15.3 million (USD1.8 million), an increase of 86.2% YoY and a decrease of 13.8% QoQ.
- Net profits were RMB97.0 million (USD11.7 million), decrease of 8.9% YoY and a decrease of 16.7% QoQ.
- Peak simultaneous online user accounts for Instant Messaging (IM) services reached a record 13.2 million, a growth of 40.4% QoQ. Peak simultaneous online user accounts of QQ Game portal reached 1.36 million, a growth of 34.9% QoQ.
- Total registered IM user accounts climbed to 400.6 million, representing an 8.4% growth QoQ. Active IM user accounts increased 10.7% QoQ to 149.2 million.
- IVAS paying subscriptions were 9.6 million as of the end of the period, increased 14.7% QoQ.
- MVAS paying subscriptions were 9.1 million as of the end of the period, increased 3.8 % QoQ.

Mr Ma Huateng, chairman and CEO of Tencent, said, “The first quarter was a rewarding yet challenging quarter for us. On the one hand, we were encouraged by the growth of our Internet platforms including our IM platform, QQ.com portal and QQ Game portal, as well as the increased revenues from our Internet value-added services. On the other hand, our mobile & telecommunications value-added services revenues were negatively impacted by the termination of the 161 Mobile Chat fee-sharing arrangements with China Mobile, and the continued volatility in the mobile value-added services industry.

“Despite the challenges, we strongly believe in the long-term opportunities in the Internet and mobile & telecommunication value-added services markets in China. Therefore, we have continued to invest in the strengthening of our Internet platforms, the development of new products and services and the building up of our research and development capabilities.”

## Business Highlights

In the first quarter, Tencent has strengthened its core IM platform, as demonstrated in the rapid growth in both active user accounts and peak simultaneous online user accounts. Peak simultaneous online user accounts increased by 40.4% QoQ. The Company has introduced a rating system that counts the amount of time each user spends on its network. QQ.com portal has also seen continued rapid growth in its traffic. The Company will continue to invest in enriching the functionalities and content of these platforms to attract users.

Tencent's IVAS revenues, for the first time, surpassed MVAS as the largest business segment, accounting for 49.6% of its total revenues, compared with 39.8% in the previous quarter. The 19.1% QoQ revenue growth reflects the strong appeal of its enriched virtual online identity products and game offerings as well as increased sale of QQ Show items during the Chinese New Year period. In addition, two new online identity products, Q-Zone and QQ Pet, were launched for close-beta testing in the first quarter.

For online games business, Tencent has further extended the leadership of its QQ Game portal as demonstrated by its strong 34.9% growth in peak concurrent users in the first quarter. Online games revenues tripled those in the previous quarter to RMB20.9m. The company has monetized such leadership by increasing paid-subscriptions and game item purchases for casual games. It has further refined its advanced casual game, QQ Tang, during the open-beta testing, and launched its MMOG, QQ Fantasy, for closed-beta testing in the first quarter.

In the first quarter, MVAS made up 44.7% of Tencent's total revenues, compared with 53.6% in the previous quarter. The decrease in MVAS revenue was primarily due to the significant decline in revenues resulting from the termination of 161 Mobile Chat fee-sharing arrangements with China Mobile, and the change in China Mobile's billing policy on MMS.

Online advertising revenues contributed 5.0% of Tencent's total revenues, compared with 5.6% in the previous quarter. Revenue from online advertising decreased in the first quarter due to seasonality.

## Financials

Gross margins increased to 66.1% in the first quarter from 63.6% in the previous quarter. This was partly due to the termination of the 161 Mobile Chat fee-sharing arrangements with China Mobile, which had a higher revenue-sharing ratio than other MVAS services; and the gradual diversification of the Company's payment channels from mobile to non-mobile channels. Net margins for the period were 32.3% compared with 37.0% in the previous quarter. This reflects an increase in R&D and marketing expenses in strategic areas including online games, portal and IM functionalities during the quarter.

Effective January 1 2005, the Company has adopted the International Financial Reporting Standard (IFRS) 2 "Share-based Payments" which has resulted in the change in accounting policy for share-based payments. Prior to this, the provision of share options to employees did not result in a charge in the income statement. Subsequent to its adoption, the Company charges the cost of share options to the income statement. IFRS 2 also requires retrospective adjustment. Accordingly, financial information in 2004 has been restated. It has resulted in the reduction of net profit in 2004 by about RMB5.6 million. For the first and fourth quarters of 2004, it has resulted in the reduction of net profit by RMB0.8 million and RMB1.8 million, respectively.

## Outlook

Tencent is confident in the long-term growth potential of the Chinese Internet industry and is committed to investing in its Internet platforms and the development of new products and services to strengthen its leading position.

The Company expects IVAS revenues to grow with virtual online identity and online games products being the key drivers, which will generate incremental revenues in the second half of 2005.

For MVAS, the Company expects continued volatility as industry environment and policies continue to evolve. But it will strive to actively promoting its Mobile QQ and other existing services, taking advantage of the PHS market, and leveraging its Internet platforms to deliver attractive content and online services to mobile users.

The Company is committed to strengthening the content and functionalities of QQ.com and enhancing its brand awareness among advertisers. It expects to see strong growth in online advertising business in the second quarter as its steps out of the weak season for the year.

## About Tencent Holdings Limited

Tencent Holdings Limited is a leading provider of Internet and mobile & telecommunications value-added services in China. Tencent serves the largest instant messaging (IM) community in China as measured by registered IM user accounts. The Company's IM platform allows users to communicate in real-time across the Internet, and mobile and fixed line telecommunications networks using various terminal devices.

Tencent operates three principal lines of business: Internet value-added services, mobile & 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, under stock code 700. For more information, please visit our corporate website at [www.tencent.com](http://www.tencent.com).

*Tencent currently offers three IM products – QQ, TM and RTX. QQ is a consumer IM communication product which offers a variety of entertainment and community features. TM is for professional IM communications in a business environment. RTX offers an IM package solution that allows an enterprise to operate and manage its own internal IM network.*

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### 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 press announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. The forward-looking statements may prove to be incorrect and may not be realized in the 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.*

## Financial Highlights

In '000 RMB (unless otherwise stated)

	1Q2005	4Q2004	1Q2005	1Q2004
<b>Revenues</b>	<b>300,471</b>	<b>314,481</b>	<b>300,471</b>	<b>257,553</b>
Internet VAS	149,064	125,149	149,064	104,586
Mobile & Telecom VAS	134,271	168,664	134,271	142,817
Online Advertising	15,293	17,744	15,293	8,215
Others	1,843	2,924	1,843	1,935
<b>COPS</b>	<b>(101,928)</b>	<b>(114,626)</b>	<b>(101,928)</b>	<b>(87,663)</b>
<b>Gross Profit</b>	<b>198,543</b>	<b>199,855</b>	<b>198,543</b>	<b>169,890</b>
Other gains, net	11,905	18,366	11,905	867
S&M expenses	(38,513)	(31,792)	(38,513)	(23,232)
G&A expenses	(68,526)	(59,227)	(68,526)	(34,479)
<b>Operating Profit</b>	<b>103,409</b>	<b>127,202</b>	<b>103,409</b>	<b>113,046</b>
Finance (cost)/income, net	(115)	(4,455)	(115)	126
Profit before taxation	103,294	122,747	103,294	113,172
Income tax expenses	(6,340)	(6,407)	(6,340)	(6,712)
<b>Net Profit</b>	<b>96,954</b>	<b>116,340</b>	<b>96,954</b>	<b>106,460</b>
<b>Earnings per share</b>				
- basic (RMB)	0.055	0.066	0.055	0.084
- diluted (RMB)	0.054	0.065	0.054	0.084
<b>Gross Margin</b>	<b>66.1%</b>	<b>63.6%</b>	<b>66.1%</b>	<b>66.0%</b>
<b>Net Margin</b>	<b>32.3%</b>	<b>37.0%</b>	<b>32.3%</b>	<b>41.3%</b>