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**Tencent 腾讯**  
**TENCENT HOLDINGS LIMITED**  
**騰訊控股有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 700)**

**CONNECTED TRANSACTIONS**  
**(1) PROVISION OF FINANCIAL ASSISTANCE**  
**(2) PUT OPTION AGREEMENT**

The Board wishes to announce that SZ Domain, a non wholly owned subsidiary of Shiji Kaixuan (a subsidiary of the Company through Structure Contracts), is undergoing a shareholding restructuring, in which certain existing minority shareholders are selling their equity interests in SZ Domain to Zhang Yan, a founder, CEO, director and substantial shareholder of SZ Domain. With an aim to promote the long term development of SZ Domain, Shiji Kaixuan is providing financial assistance and a long-term Put Option plan to Zhang Yan. On 5 August 2008, Shiji Kaixuan has entered into (a) the Loan Agreement; and (b) the Put Option Agreement, with Zhang Yan.

Pursuant to the Loan Agreement, Shiji Kaixuan agreed to lend to Zhang Yan RMB73.1 million for a term of three years, extendable to five years, with security. The loan is interest bearing and the interest rate was agreed after arm's length negotiation with reference to the personal loan rates published by the People's Bank of China. With the loan, Zhang Yan will purchase 15.6% of equity interests in SZ Domain from existing shareholders (other than Shiji Kaixuan) of SZ Domain. The 15.6% equity interests to be acquired by Zhang Yan shall be pledged to Shiji Kaixuan as security for the loan.

For the purpose of providing Zhang Yan with long-term Put Option plan over time, pursuant to the Put Option Agreement, Shiji Kaixuan has agreed to purchase the Option Shares if the shares of SZ Domain are not listed on a recognized stock exchange by 31 December 2010. Zhang Yan may require Shiji Kaixuan to acquire all the Option Shares over a period of three years at a valuation which is six times the Adjusted Net Profit of SZ Domain for the preceding fiscal year provided that the Adjusted Net Profit of SZ Domain for such year will not be less than 80% of the Adjusted Net Profit of the preceding year.

On the basis that (a) Zhang Yan is a director and substantial shareholder of SZ Domain, a subsidiary of Shiji Kaixuan and (b) through Structure Contracts, Shiji Kaixuan is accounted for as a subsidiary of the Company, Zhang Yan is a connected person of the Company and Shiji Kaixuan is part of the Group. As a result, the transactions contemplated in the Loan Agreement and the Put Option Agreement constitute connected transactions for the Company.

As certain relevant percentage ratios (as defined in the Listing Rules) for each of the Loan Agreement and the Put Option Agreement exceed 0.1% but are less than 2.5%, the connected transactions contemplated in the Loan Agreement and the Put Option Agreement are, pursuant to Rule 14A.66 and Rule 14A.32 of the Listing Rules, exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

## **BACKGROUND**

In November 2005, the Company via Shiji Kaixuan acquired 19.9% equity interests in SZ Domain for a consideration of RMB29.9 million. Subsequently, Shiji Kaixuan invested an additional RMB106.3 million to acquire an additional 40.1% equity interests in SZ Domain and the Company via Shiji Kaixuan now holds 60.0% equity interests in SZ Domain. As part of the long-term strategy of the Group in securing a pipeline of high quality online game titles, SZ Domain has been developing games independently while having close cooperation with the Group in the distribution and operation of games. In the future, SZ Domain may seek listing on a recognized stock exchange, otherwise the Company may increase its equity interests in SZ Domain should Zhang Yan exercise the Put Option. The Company will fully comply with the Listing Rules when SZ Domain seeks listing on recognized stock exchange.

The Board wishes to announce that SZ Domain, a non wholly owned subsidiary of Shiji Kaixuan (a subsidiary of the Company through Structure Contracts), is undergoing a shareholding restructuring, in which certain existing minority shareholders are selling their equity interests in SZ Domain to Zhang Yan, a founder, CEO, director and substantial shareholder of SZ Domain. With an aim to promote the long term development of SZ Domain, Shiji Kaixuan is providing financial assistance and a long-term Put Option plan to Zhang Yan. On 5 August 2008, Shiji Kaixuan entered into (a) the Loan Agreement; and (b) the Put Option Agreement, with Zhang Yan.

## THE LOAN AGREEMENT

On 5 August 2008, Shiji Kaixuan and Zhang Yan entered into the Loan Agreement. Certain terms of the Loan Agreement are summarized below:

- Date : 5 August 2008
- Parties : (1) Shiji Kaixuan as lender  
(2) Zhang Yan, a founder, CEO, director and substantial shareholder of SZ Domain, a non wholly owned subsidiary of Shiji Kaixuan, as borrower
- Amount : RMB73.1 million, which is the consideration for the 15.6% of equity interests that Zhang Yan will acquire from the other minority shareholders of SZ Domain (equivalent to approximately HK\$83.3 million)
- Term : three years from the Registration Date; if the shares of SZ Domain are not listed on a recognized stock exchange by 31 December 2010, the term shall be extended to five years from the Registration Date.
- Interest rate : 7.47% per annum, which is determined with reference to the prevailing personal loan rates published by the People's Bank of China.
- Purpose : to assist Zhang Yan in acquiring the 15.6% of equity interests in SZ Domain from the other minority shareholders of SZ Domain
- Repayment of loan : all dividends which will be paid to shares of SZ Domain held by Zhang Yan shall be used to pay back the loan and the related interest until repaid in full. If Zhang Yan exercises the Put Option and sell the Option Shares to Shijia Kaixuan, the proceeds from such sale shall be used to pay back the remaining principal and interest of the loan first, if any.
- Security : the 15.6% equity interests acquired by Zhang Yan shall be pledged to Shiji Kaixuan as security for the loan

The following table shows the shareholding of SZ Domain before and after completion of the acquisition of 15.6% equity interests in SZ Domain by Zhang Yan:

<b>Shareholders</b>	<b>Shareholding before acquisition</b>	<b>Shareholding after acquisition</b>
Shiji Kaixuan	60%	60%
Zhang Yan	13.4%	29%
Other minority shareholders	20.8%	0%
Employee Restricted Stock Unit held by the Trustee	5.8%	11%

The minority shareholders and their ultimate beneficial owners of SZ Domain are third parties independent of the Company and any connected person of the Company.

#### **THE PUT OPTION AGREEMENT**

On 5 August 2008, Shiji Kaixuan and Zhang Yan entered into the Put Option Agreement. Pursuant to the Put Option Agreement, Shiji Kaixuan has agreed to purchase the Option Shares if shares of SZ Domain are not listed on a recognized stock exchange by 31 December 2010. Zhang Yan may at his discretion require Shiji Kaixuan to acquire 29% interest held by Zhang Yan over a period of three years. Apart from this, Zhang Yan may also require Shiji Kaixuan to acquire 11% interest held by the Trustee under the Employee Restricted Stock Unit with the authority from the beneficial employees over a period of three years. All the Option Shares will be sold at a valuation which is six times the Adjusted Net Profit of SZ Domain for the preceding fiscal year, provided that the Adjusted Net Profit of SZ Domain for such year will not be less than 80% of the Adjusted Net Profit of the preceding year. There is no premium paid for the Put Option. The Board believes that the valuation basis is fair and reasonable and on normal commercial terms as compared to those of other listed MMOG companies. The maximum value of the consideration of the Put Option Agreement is RMB560.8 million, which is the computed value based on the following capped valuations:

- (i) Shiji Kaixuan may be required to acquire 33% of all the Option Shares in 2011 at a valuation which is six times of the Adjusted Net Profit of SZ Domain for the year ending 31 December 2010 (the valuation is capped at RMB1.2 billion) provided that the Adjusted Net Profit of SZ Domain for the year ending 31 December 2010 will not be less than 80% of the Adjusted Net Profit for the year ending 31 December 2009;

- (ii) Shiji Kaixuan may be required to acquire 33% of all the Option Shares in 2012 at a valuation which is six times of the Adjusted Net Profit of SZ Domain for the year ending 31 December 2011 (the valuation is capped at RMB1.4 billion) provided that the Adjusted Net Profit of SZ Domain for the year ending 31 December 2011 will not be less than 80% of the Adjusted Net Profit for the year ending 31 December 2010;
- (iii) Shiji Kaixuan may be required to acquire the remaining 34% of all the Option Shares in 2013 at a valuation which is six times of the Adjusted Net Profit of SZ Domain for the year ending 31 December 2012 (the valuation is capped at RMB1.6 billion) provided that the adjusted net profit of SZ Domain for the year ending 31 December 2012 will not be less than 80% of the Adjusted Net Profit for the year ending 31 December 2011.

If any of the Option Shares to be sold in 2011 and 2012 are not sold in such respective years, such Option Shares may be sold in subsequent years provided that the Adjusted Net Profit condition for such subsequent years is fulfilled and the valuation for such Option Shares will be subject to the capped valuation of the relevant year. For the Option Shares to be sold in 2013, the right to sell will cease if the Adjusted Net Profit for 2012 is less than 80% of that of 2011.

The purchase cost of 15.6% interests in SZ Domain which Zhang Yan is to acquire is RMB73.1 million. Based on the registered capital of SZ Domain, the contribution of the remaining 13.4% interests of SZ Domain held by Zhang Yan which he owned as a founder since the incorporation of SZ Domain, is RMB1.3 million. Pursuant to Rule 14A.69(2) and Rule 14A.69(3) of the Listing Rules, the Company shall make further announcement(s) on the exercise, transfer or expiry of the Put Option as soon as reasonably practicable in accordance with Rule 2.07C of the Listing Rules.

## **CONNECTED TRANSACTIONS**

On the basis that (a) Zhang Yan is a director and substantial shareholder of SZ Domain, a subsidiary of Shiji Kaixuan and (b) through Structure Contracts, Shiji Kaixuan is accounted for as a subsidiary of the Company, Zhang Yan is a connected person of the Company and Shiji Kaixuan is part of the Group. As a result, the transactions contemplated in the Loan Agreement and the Put Option Agreement constitute connected transactions for the Company.

As certain relevant percentage ratios (as defined in the Listing Rules) for each of the Loan Agreement and the Put Option Agreement exceed 0.1% but are less than 2.5%, the connected transactions contemplated in the Loan Agreement and the Put Option Agreement are, pursuant to Rule 14A.66 and Rule 14A.32, exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

## **REASONS FOR THE TRANSACTIONS**

Online gaming is one of the fastest growing Internet sectors in the PRC. Part of the Group's strategy in online gaming business is to invest in or acquire promising game companies, and to create the right governance structure for them to develop games independently while having close cooperation with the Group in the distribution and operation of games.

Zhang Yan, a founder and CEO of SZ Domain, has played and will continue to play an important role in the success of SZ Domain. The Board considers the acquisition of equity interests in SZ Domain by Zhang Yan from other minority shareholders, who are not involved in the operations of SZ Domain, a positive development for SZ Domain. For that purpose, the Company via Shiji Kaixuan has agreed to provide financial assistance and a long-term Put Option plan to Zhang Yan in connection with these transactions.

The Board (including the independent non-executive Directors) believes that the terms of the Loan Agreement and the Put Option Agreement are on normal commercial terms and are fair and reasonable as the terms of the Loan Agreement, though not in the ordinary and usual course of business of the Group, are on terms no less favourable to the Company than to those available to independent third parties. In view of the above reasons, the Board (including the independent non-executive Directors) considers the entering into the Loan Agreement and the Put Option Agreement are in the interests of the Company and the shareholders of the Company as a whole.

## **GENERAL**

The Group is principally engaged in the provision of Internet and mobile value-added services and online advertising services to users in the PRC.

Zhang Yan is a founder, CEO, director and substantial shareholder of SZ Domain. Zhang Yan is interested in 13.4% of the entire equity interest of SZ Domain. SZ Domain, in which 60% of the equity interest held by the Company via Shiji Kaixuan, is a subsidiary of the Company. SZ Domain is engaged in the development and provision of online games, in particular MMOGs. QQ Huaxia, one of the MMOGs developed and introduced by SZ Domain, is very well received by the online game community. Based on the unaudited financial statements of SZ Domain as at 31 December 2007, the total assets of SZ Domain were approximately RMB75.0 million and the net assets of SZ Domain amounted to RMB48.9 million. The unaudited net profit/(loss) of SZ Domain (after taxation and extraordinary items) for the years ended 31 December 2007 and 31 December 2006 were approximately RMB 47.0 million and RMB(17.3) million, respectively and the unaudited net profit/(loss) of SZ Domain (before taxation and extraordinary items) for the years ended 31 December 2007 and 31 December 2006 were approximately RMB50.1 million and RMB(17.3) million, respectively.

## DEFINITIONS

<b>Term</b>	<b>Meaning</b>
“Adjusted Net Profit”	Adjusted Net Profit is calculated based on the audited net profit, after deducting any non-operating profit (including profit arising from sale of assets which include intellectual property), and if there are any upfront fee income or other similar income from game licensing, such income will be allocated over the license period since the commercial launching of such licensed game;
“Board”	board of Directors;
“CEO”	chief executive officer;
“Company”	Tencent Holdings Limited, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Directors”	directors of the Company;



“Employee Restricted Stock Unit”	the 11% equity interests in SZ Domain, which had been/will be granted to certain employees of SZ Domain, held by the Trustee;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Agreement”	the loan agreement dated 5 August 2008 entered into between Shiji Kaixuan as lender and Zhang Yan as borrower in relation to a loan in the sum of RMB73.1 million at a fixed interest rate of 7.47% per annum;
“MMOG” or “MMOGs”	massive multiplayer online game(s);
“Option Price”	means a price based on a valuation which is six times the Adjusted Net Profit of SZ Domain for the preceding fiscal year;
“Option Shares”	all the shares of SZ Domain held by Zhang Yan and the Trustee;
“Parties”	Shiji Kaixuan and Zhang Yan, being the parties to the Loan Agreement and the Put Option Agreement;
“PRC”	People’s Republic of China;
“Put Option”	the option which requires Shiji Kaixuan to purchase the Option Shares at the Option Price;
“Put Option Agreement”	the put option agreement dated 5 August 2008 entered into between the Parties in relation to the Put Option;
“Registration Date”	the date of registration of change of interest in SZ Domain from other minority shareholders to Zhang Yan and is, subject to the date of approval of the relevant government authority, expected to be around mid-August 2008;
“RMB”	Renminbi, the lawful currency of the PRC;



“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited (深圳市世紀凱旋科技有限公司), a limited liability company established in the PRC and through Structure Contracts is accounted for as a subsidiary of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Structure Contracts”	contracts that are designed to provide the Company with effective control over and (to the extent permitted by PRC law) the right to acquire equity interests in and/or assets of Shiji Kaixuan;
“subsidiary”	has the meaning ascribed to it under the Listing Rules;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“SZ Domain”	Shenzhen Domain Computer Network Company Limited (深圳市網域計算機網絡有限公司), a limited liability company established in the PRC and a subsidiary of Shiji Kaixuan and the Company. As at the date of this announcement, it is held as to 60% by Shiji Kaixuan and as to 13.4% by Zhang Yan;
“Trustee”	the trustee appointed by SZ Domain for the administration of the Employee Restricted Stock Unit;
“Zhang Yan”	Zhang Yan (張岩), a founder, CEO, director and substantial shareholder of SZ Domain; and
“%”	per cent.

In this announcement, for reference purpose only and unless otherwise stated, the conversion of RMB into HK\$ is calculated by using an exchange rate of RMB1.00 to HK\$1.14.

By Order of the Board  
**Ma Huateng**  
*Chairman*

5 August 2008

As at the date of this announcement, the directors of the Company are:

*Executive Directors:* Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

*Non-Executive Directors:* Antonie Andries Roux and Charles St Leger Searle; and

*Independent Non-Executive Directors:* Li Dong Sheng, Iain Ferguson Bruce and Ian Charles Stone.