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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 TRANSACTION
ACQUISITION OF 40% EQUITY INTERESTS IN SZ DOMAIN
TERMINATION OF LOAN AGREEMENT AND
PUT OPTION AGREEMENT AND SUPPLEMENTAL AGREEMENT

References are made to the announcements of the Company dated 5 August 2008 and 21 April 2009.

The Board wishes to announce that Tencent Computer (a subsidiary of the Company through Structure Contracts), Zhang Yan and Shijiaqi, among other parties, entered into the Share Acquisition Agreement on 19 April 2010 to acquire 29% equity interest in SZ Domain, a non-wholly owned subsidiary of Shiji Kaixuan (another subsidiary of the Company through Structure Contracts), for a consideration of approximately RMB141.8 million.

Upon signing of the Share Acquisition Agreement, the Group shall also (a) make an offer to certain employees of SZ Domain for a consideration up to RMB12.4 million to acquire up to 2.96% equity interest in SZ Domain which are in the form of restricted stock units granted to these employees and which are exercisable; and (b) at its discretion grant restricted stock units to certain employees of SZ Domain up to a value of RMB8.3 million under the share award scheme of the Company adopted on 13 December 2007 with reference to the restricted stock units already granted to these employees which are not yet exercisable. As a result of the acquisition of granted restricted stock units, the entire Employee Restricted Stock Unit of SZ Domain (representing 11% of the share capital of SZ Domain) shall be transferred to the Group. Upon completion of the Acquisitions, the Company would, through Tencent Computer and Shiji Kaixuan, own 100% of SZ Domain and SZ Domain shall be a wholly owned subsidiary of the Company. The Loan Agreement, Put Option Agreement and Supplemental Agreement shall be terminated upon repayment of the loan and interest outstanding under the Loan Agreement.

On the basis that (a) Zhang Yan is a director and substantial shareholder of SZ Domain, a subsidiary of Shiji Kaixuan; (b) through Structure Contracts, Tencent Computer and Shiji Kaixuan are accounted for as subsidiaries of the Company; and (c) Shijiaqi is a company wholly owned by Zhang Yan, Zhang Yan and Shijiaqi are connected persons of the Company and Tencent Computer and Shiji Kaixuan are part of the Group. As a result, the transaction contemplated in the Share Acquisition Agreement constitutes a connected transaction for the Company.

As certain relevant percentage ratios (as defined in the Listing Rules) for the Share Acquisition Agreement exceeds 0.1% but are less than 2.5%, the connected transaction contemplated in the Share Acquisition Agreement is, pursuant to 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.

BACKGROUND

References are made to the announcements of the Company dated 5 August 2008 and 21 April 2009.

In November 2005, the Group 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 additional 40.1% equity interests in SZ Domain. As at the date of this announcement and before completion of the Share Acquisition Agreement, the Company via Shiji Kaixuan held approximately 60.0% equity interests in SZ Domain.

On 5 August 2008, Shiji Kaixuan entered into (a) the Loan Agreement; and (b) the Put Option Agreement, with Zhang Yan, a founder, CEO, director and substantial shareholder of SZ Domain. 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 and if Zhang Yan exercises the Put Option. On 21 April 2009, Shiji Kaixuan, Zhang Yan and Shijiaqi entered into the Supplemental Agreement pursuant to which Zhang Yan transferred his 29% equity interests in SZ Domain to Shijiaqi.

The Board wishes to announce that Tencent Computer (a subsidiary of the Company through Structure Contracts), Zhang Yan and Shijiaqi, among other parties, entered into the Share Acquisition Agreement on 19 April 2010 to acquire 29% equity interest in SZ Domain, a non-wholly owned subsidiary of Shiji Kaixuan (another subsidiary of the Company through Structure Contracts), for a consideration of approximately RMB141.8 million. Upon signing of the Share Acquisition Agreement, the Group

shall also (a) make an offer to certain employees of SZ Domain for a consideration up to RMB12.4 million to acquire up to 2.96% equity interest in SZ Domain which are in the form of restricted stock units granted to these employees and which are exercisable; and (b) at its discretion grant restricted stock units to certain employees of SZ Domain up to a value of RMB8.3 million under the share award scheme of the Company adopted on 13 December 2007 with reference to the restricted stock units already granted to these employees which are not yet exercisable. As a result of the acquisition of granted restricted stock units, the entire Employee Restricted Stock Unit of SZ Domain (representing 11% of the share capital of SZ Domain) shall be transferred to the Group. Upon completion of the Acquisitions, the Company would, through Tencent Computer and Shiji Kaixuan, own 100% of SZ Domain and SZ Domain shall be a wholly owned subsidiary of the Company. The Loan Agreement, Put Option Agreement and the Supplemental Agreement shall be terminated upon repayment of the loan and interest outstanding under the Loan Agreement.

THE SHARE ACQUISITION AGREEMENT

On 19 April 2010, SZ Domain, Tencent Computer, Shijiaqi, Zhang Yan and Shiji Kaixuan entered into the Share Acquisition Agreement. Certain terms of the Share Acquisition Agreement are summarized below:

Date

19 April 2010

Parties

- (1) SZ Domain
- (2) Tencent Computer
- (3) Shijiaqi, a limited liability company incorporated in the PRC and wholly owned by Zhang Yan
- (4) Zhang Yan, a founder, CEO, director and substantial shareholder of SZ Domain, a non-wholly owned subsidiary of Shiji Kaixuan
- (5) Shiji Kaixuan

The Acquisition

Pursuant to the Share Acquisition Agreement, Tencent Computer agreed to purchase, and Shijiaqi agreed to sell, 29% equity interest in SZ Domain for a consideration of approximately RMB141.8 million. The consideration was based on a valuation of RMB489.0 million which was determined by reference to the price to earning ratios of SZ Domain and was arrived at after arm's length negotiations between the parties to the Share Acquisition Agreement.

The consideration will be paid in two tranches. The first tranche shall be an amount of approximately RMB111.8 million of which approximately RMB40.6 million shall be transferred directly to the Group to pay off the loan and interest outstanding under the Loan Agreement. The second tranche of RMB30.0 million shall be paid after Zhang Yan has continued to provide service to the Group and fulfilled certain conditions for a period of time after closing. The total consideration shall be paid in cash and shall be satisfied by the internal resources of the Group.

Completion of the Acquisition is expected to take place on or before 19 June 2010. The Loan Agreement, Put Option Agreement and Supplemental Agreement shall be terminated upon repayment of the loan and interest outstanding under the Loan Agreement.

THE ACQUISITION OF THE OUTSTANDING RESTRICTED STOCK UNITS OF SZ DOMAIN

As part of the acquisition, the Group shall also make an offer to certain employees of SZ Domain for a consideration up to RMB12.4 million to acquire up to 2.96% equity interest in SZ Domain which are in the form of restricted stock units granted to these employees and which are exercisable. The Company shall at its discretion grant restricted stock units to certain employees of SZ Domain up to a value of RMB8.3 million under the share award scheme of the Company adopted on 13 December 2007 with reference to the restricted stock units already granted to these employees which are not yet exercisable. As a result of the acquisition of the granted restricted stock units, the entire Employee Restricted Stock Unit of SZ Domain (representing 11% of the share capital of SZ Domain) shall be transferred to the Group.

The valuation of the restricted stock unit pool of SZ Domain is RMB419.0 million which is based on the valuation for the acquisition of 29% equity interest of RMB489.0 million less RMB70.0 million restricted stock unit cost provided in the grant letters to employees of SZ Domain and was arrived at after arm's length negotiations between the Parties to the Share Acquisition Agreement.

Save as disclosed above, the remaining equity interest of SZ Domain held by the Trustee or ultimate beneficial owners of SZ Domain are third parties independent of the Company and any connected person of the Company.

Upon completion of the acquisition of 29% equity interest in SZ Domain from Shijiaqi and 11% restricted stock unit pool of SZ Domain, the Company will, through Tencent Computer and Shiji Kaixuan, own 100% of SZ Domain and SZ Domain shall be a wholly owned subsidiary of the Company.

INFORMATION ON SZ DOMAIN

SZ Domain is a non-wholly owned subsidiary of Shiji Kaixuan and an indirect subsidiary of the Company. SZ Domain is engaged in the development and provision of online games, in particular MMOGs. QQ Huaxia and Hero Island are two of the MMOGs developed and introduced by SZ Domain and are well received by the online game community.

Prior to the completion of the acquisition of 29% equity interest in SZ Domain from Shijiaqi and 11% restricted stock unit pool of SZ Domain, the Company has an indirect 60% equity interest in SZ Domain and Zhang Yan has an indirect 29% equity interest in SZ Domain. The remaining 11% is earmarked as the restricted stock units for certain employees of SZ Domain. The original acquisition cost of the initial 19.9% equity interest was RMB29.9 million and the acquisition cost of the subsequent 40.1% equity interest was RMB106.3 million.

The table below shows the audited net asset value, net profits before and after tax and extraordinary items of SZ Domain in accordance with the PRC GAAP for the preceding two financial years:

	For the year ended 31 December 2008 <i>RMB'000</i>	For the year ended 31 December 2009 <i>RMB'000</i>
Net asset value	124,392	109,464
Net profit before tax and extraordinary items	92,891	64,240
Net profit after tax and extraordinary items	79,379	60,142

REASONS FOR THE ACQUISITIONS

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 and if Zhang Yan exercises the Put Option. Zhang Yan may require Shiji Kaixuan to acquire 29% interest held by Zhang Yan over a period of three years. Further, Zhang Yan may also require Shiji Kaixuan to acquire 11% interest of Employee Restricted Stock Unit over a period of three years. All such interests are to 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.

The Board believes the Acquisitions enable the Group to better integrate SZ Domain and allow the Group to provide more resources to support the continued development of SZ Domain, and better align the interests of the Group and SZ Domain. Therefore, instead of waiting for Zhang Yan to exercise the Put Option, the Group and Zhang Yan have agreed to facilitate the Acquisitions through arm's length commercial negotiation.

The Board (including the independent non-executive Directors) considers that the terms of the Share Acquisition Agreement and the Acquisitions are on normal commercial terms and are fair and reasonable and the entering into of the Share Acquisition Agreement is in the interests of the Company and the shareholders of the Company as a whole.

CONNECTED TRANSACTIONS

On the basis that (a) Zhang Yan is a director and substantial shareholder of SZ Domain, a subsidiary of Shiji Kaixuan; (b) through Structure Contracts, Tencent Computer and Shiji Kaixuan are accounted for as subsidiaries of the Company; and (c) Shijiaqi is a company wholly owned by Zhang Yan, Zhang Yan and Shijiaqi are connected persons of the Company and Tencent Computer and Shiji Kaixuan are part of the Group. As a result, the transactions contemplated in the Share Acquisition Agreement constitutes a connected transaction for the Company.

As certain relevant percentage ratios (as defined in the Listing Rules) for the Share Acquisition Agreement exceeds 0.1% but are less than 2.5%, the connected transaction contemplated in the Share Acquisition Agreement is, pursuant to 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.

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. Prior to the completion of the Acquisitions, Zhang Yan is interested in 29% of the entire equity interest of SZ Domain.

Shijiaqi is a limited liability company incorporated in the PRC wholly owned by Zhang Yan. Shijiaqi is an investment holding company.

SZ Domain is a non-wholly owned subsidiary of Shiji Kaixuan and an indirect subsidiary of the Company. SZ Domain is engaged in the development and provision of online games, in particular MMOGs. QQ Huaxia and Hero Island are two of the MMOGs developed and introduced by SZ Domain which are well received by the online game community.

DEFINITIONS

Term	Meaning
“Acquisitions”	the acquisition of 29% equity interest in SZ Domain from Shijiaqi and 11% restricted stock unit pool of SZ Domain
“Adjusted Net Profit”	audited net profit after certain adjustments such as amortization of game license fees over license time period and subtraction of non-operating profit;
“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 held by the Trustee;
“Group”	the Company and its subsidiaries;
“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;
“MMOGs”	massively multiplayer online games;
“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”	SZ Domain, Tencent Computer, Shijiaqi, Zhang Yan and Shiji Kaixuan;
“PRC”	People’s Republic of China;
“PRC GAAP”	Accounting Standards for Business Enterprise in the PRC;
“Put Option”	the option which requires Shiji Kaixuan to purchase the shares of SZ Domain held by Zhang Yan and employees of SZ Domain at the Option Price;
“Put Option Agreement”	the put option agreement dated 5 August 2008 entered into between Shiji Kaixuan and Zhang Yan in relation to the Put Option;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share Acquisition Agreement”	the share acquisition agreement dated 19 April 2010 entered into between the Parties in relation to the acquisition of 29% equity interests in SZ Domain;
“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;
“Shijiaqi”	Shenzhen Shijiaqi Investment Company Limited (深圳市世佳琦投資有限公司), a limited liability company incorporated in the PRC and wholly owned by Zhang Yan;
“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 and Tencent Computer;
“subsidiary”	has the meaning ascribed to it under the Listing Rules;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“Supplemental Agreement”	the agreement entered into between Shiji Kaixuan, Zhang Yan and Shijiaqi on 21 April 2009;
“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 29% by Shijiaqi;
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a limited liability company established in the PRC and through Structure Contracts is accounted for as a subsidiary of the Company;
“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.

By Order of the Board
Ma Huateng
Chairman

19 April 2010

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.