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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)

DISCLOSEABLE AND CONNECTED TRANSACTION
SUBSCRIPTION FOR SHARES TO BE ISSUED BY
DIGITAL SKY TECHNOLOGIES LIMITED

The Board wishes to announce that on 12 April 2010, the Investor, a wholly-owned subsidiary of the Company, entered into the Subscription Agreement with DST. Pursuant to the Subscription Agreement, the Investor agreed to subscribe for, and DST agreed to issue and allot to the Investor, up to 8,114 Ordinary Shares for an aggregate consideration of up to US\$300,002,113 (approximately HK\$2.328 billion).

Upon completion of the subscription of all 8,114 Ordinary Shares, the Company would, through the Investor, hold approximately a 10.26% economic interest in DST.

DST was founded in 2005 and is one of the largest Internet companies in the Russian-speaking and Eastern European markets. It is also one of the leading global investment groups primarily focused on Internet-related companies, holding stakes in global Internet companies such as Facebook and Zynga.

DST is a connected person of the Company by virtue of the fact that (i) DST is the holding company of Mail.ru; and (ii) MIH China, a substantial shareholder of the Company, controls more than 30% of the voting power at a general meeting of Mail.ru. Accordingly, entering into the Subscription Agreement constitutes a connected transaction of the Company under the Listing Rules. As one of the relevant percentage ratios prescribed under Rule 14.07 of the Listing Rules exceeds 2.5%, the Subscription is subject to the approval of the independent shareholders of the Company.

In accordance with the Listing Rules, the Subscription also constitutes a discloseable transaction of the Company as one of the relevant percentage ratios prescribed under Rule 14.07 of the Listing Rules exceeds 5% but is less than 25%.

An independent board committee of the Company has been established and will advise the independent shareholders of the Company as to whether the terms of the Subscription are on normal commercial terms and fair and reasonable, and whether the transactions contemplated under the Subscription Agreement are in the interests of the Company and the shareholders as a whole. An independent financial adviser, Credit Suisse, has also been appointed to advise the independent board committee and the independent shareholders in respect of such terms.

A circular containing, among other things, (i) details of the Subscription; (ii) a letter from the independent financial adviser containing its advice to the independent board committee and the independent shareholders; and (iii) recommendation from the independent board committee, will be despatched to the shareholders as soon as practicable.

THE SUBSCRIPTION AGREEMENT

On 12 April 2010, the Investor, a wholly-owned subsidiary of the Company, and DST entered into the Subscription Agreement.

Date of the Agreement

12 April 2010

Parties

- (1) Investor, a wholly-owned subsidiary of the Company
- (2) DST

The Subscription

Pursuant to the Subscription Agreement, the Investor agreed to subscribe for, and DST agreed to issue and allot to the Investor, an aggregate of up to 8,114 Ordinary Shares for a total consideration of up to US\$300,002,113 (approximately HK\$2.328 billion). The Ordinary Shares will be issued and allotted to the Investor free and clear of any Encumbrance.

The share capital of DST consists of different classes of shares with various voting rights, each with a par value of US\$0.01. The Ordinary Shares are a separate class of shares, which rank *pari passu* with the Class A Shares of DST in terms of

dividends, distributions and other economic rights. Each Class A Share has the right to 25 votes, while each Ordinary Share has the right to one vote. DST also has a class of Class C Shares with special economic rights attached to specified assets of DST but no voting rights. The Class C Shares, and the economic rights and the specified assets attached thereto, have been disregarded for the purposes of valuing DST for the proposed transaction.

Upon completion of the subscription of all 8,114 Ordinary Shares, the Company would, through the Investor, hold approximately (i) a 10.26% economic interest in DST (excluding the economic rights of the Class C Shares as discussed above); and (ii) 0.51% of the total voting power of DST.

Consideration and Payment Terms

The aggregate consideration of up to US\$300,002,113 (approximately HK\$2.328 billion) is payable in cash. The consideration was negotiated on an arm's length basis and was determined by, among other things, reference to a valuation model that the Company used to value DST. The valuation model values DST by comparing the price to earnings ratio of the key companies in which DST has invested with the price to earnings ratios of companies which engage in a business similar to that of DST.

The Company believes that the Subscription is a step for the Company to realize and benefit from the growth potential of the Russian market through the unique and leading position of DST in such market. In addition, the Subscription allows the Company to develop a long-term strategic partnership with DST and the companies in which it has invested, and allows the Company to explore further business cooperation with them. The Company has taken into account these factors when valuing DST.

The aggregate cash consideration of up to US\$300,002,113 (approximately HK\$2.328 billion) will be payable by the Investor to DST in two installments in the following manner:

- (a) at the First Closing, a payment of US\$165,012,254 (approximately HK\$1.280 billion) in exchange for 4,463 Ordinary Shares (the "First Shares"); and
- (b) at the Second Closing, a payment of US\$134,989,859 (approximately HK\$1.048 billion) in exchange for the remaining 3,651 Ordinary Shares (the "Second Shares").

Closing and Closing Conditions

It is expected that the First Closing will take place within the next several weeks, subject to certain closing conditions having been fulfilled or waived in accordance with the terms of the Subscription Agreement, including (among others):

- (a) DST shall have delivered to the Investor a certified copy of all corporate and shareholder approvals necessary for DST and its shareholders to effect the transaction;
- (b) the Investor shall have delivered to DST a certified copy of all corporate and shareholder approvals necessary for the Investor to effect the transaction;
- (c) there shall not be in effect any judgment, order, ruling or award of any court, arbitrator or other judicial authority or any governmental, administrative or regulatory authority restraining, enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by the Subscription Agreement;
- (d) no action, suit or legal, administrative, arbitration or other proceedings (including any notice of a claim or notice threatening such proceedings) shall be outstanding which seek to challenge the consummation of the transactions contemplated by the Subscription Agreement;
- (e) the warranties provided by the parties to each other shall be true and accurate as of the date of the Subscription Agreement and the date of the First Closing;
- (f) DST shall have performed and complied with all agreements, obligations and conditions contained in the Subscription Agreement that are required to be performed or complied with by it on or before the First Closing; and
- (g) the Investor shall have obtained all authorizations, approvals, consents, clearances or permits (if any) required from any Regulatory Authority having applicable jurisdiction which the Investor reasonably considers (i) are necessary to enable the Subscription to be implemented; or (ii) would, if not obtained, subject or be reasonably likely to subject the Subscription to material challenge (including by any Regulatory Authority), and all such authorizations, approvals, consents, clearances and permits shall be in effect as of the First Closing.

As at the date of this announcement, all approvals referred to in paragraph (a) above have been obtained.

It is expected that the Second Closing will take place within approximately 30 days of the First Closing, subject to certain closing conditions having been fulfilled or waived in accordance with the Subscription Agreement, including (among others):

- (a) certain of the warranties provided by DST to the Investor shall be true and accurate as of the date of the Subscription Agreement and the date of the Second Closing;
- (b) DST shall have performed and complied with all agreements, obligations and conditions contained in the Subscription Agreement that are required to be performed or complied with by it on or before the Second Closing; and
- (c) no material adverse change has occurred.

Either DST or the Investor may terminate the Subscription Agreement (other than certain surviving provisions) under the following conditions: (i) if the closing conditions for the First Closing have not been fulfilled or waived within 60 calendar days of the date of the Subscription Agreement; or (ii) if the closing conditions for the Second Closing have not been fulfilled or waived within 45 calendar days of the date of the First Closing.

INVESTOR RIGHTS

In connection with the Subscription, the Investor, DST and certain other shareholders of DST have or will enter into the Ancillary Agreements. DST has also amended its memorandum and articles of association.

Pursuant to the Ancillary Agreements and the memorandum and articles of association of DST:

- (a) the DST Board shall consist of directors nominated for appointment by certain of DST's other shareholders;
- (b) for so long as the Investor holds a specified number of Ordinary Shares, it shall have the right to nominate one observer to the DST Board, who shall generally have the right to attend and participate in all meetings of the DST Board (though not vote), and receive information and copies of all written resolutions circulated to the DST Board;
- (c) for so long as the Investor holds a specified number of Ordinary Shares, DST must generally obtain the prior written consent of the Investor (along with certain other shareholders of DST) before creating or issuing any new class of security other than the classes of securities currently in existence;

- (d) for so long as the Investor holds a specified number of Ordinary Shares, DST shall provide to the Investor certain financial information, including audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards; and
- (e) the Investor, along with other shareholders of DST, generally enjoy (i) preemptive rights to purchase their pro rata portion of new share issuances; and (ii) rights of first refusal and co-sale with respect to share transfers.

INFORMATION ON DST

DST was incorporated in the British Virgin Islands in 2005 and is the one of the largest Internet companies in the Russian-speaking and Eastern European markets, and one of the leading investment groups globally to exclusively focus on Internet-related companies. Its key properties include Forticom Group, the owner and operator of leading social networks in Russia/CIS (Odnoklassniki.ru) and Poland (Nasza-Klasa.pl); VKontatke, a leading social network in the Russian-speaking world; OE Investments, a holding company that owns a leading payment processing business in Russia; and Mail.ru, a leading web-portal in the Russian-speaking world. DST also holds stakes in global Internet companies such as Facebook and Zynga. DST is a privately held holding company backed in part by leading Russian and Western financial institutions.

According to the Company's valuation, DST is valued at approximately US\$2.625 billion (approximately HK\$20.370 billion) for the purposes of this transaction. The Company believes the valuation is justified based on the fast growth and leading market position of the companies in which DST has invested. In arriving at such valuation, the Company has taken into account, among other things, a valuation model that compares the price to earnings ratio of the key companies in which DST has invested with the price to earnings ratio of companies which engage in a business similar to that of DST.

REASONS FOR THE SUBSCRIPTION

The Company believes that the Russian Internet market is fast-growing with promising long-term growth potential, particularly as Internet and broadband usage in Russia is at a relatively low level at present when compared to other developed countries. The Company believes that the Russian-speaking market is a lucrative market for its Internet and Internet related businesses such as online advertising, social networking services, online gaming, which the Company believes are businesses that will grow rapidly in the coming years.

DST represents a unique investment opportunity for the Company in the Russian Internet market given DST's leading market position and deep understanding of such

market. DST has significant stakes in a number of leading Internet companies in the Russian-speaking world, including Forticom Group, VKontatke and Mail.ru, which, on a combined basis, account for a significant amount of Internet traffic in the Russian-speaking market, targeting a potential audience of over 300 million people.

The Company believes that the Subscription is a step for the Company to realize and benefit from the growth potential of the Russian Internet market. It also aligns well with the Company's long-term strategy to cooperate with top local Internet companies in emerging markets through strategic investment and partnership, leveraging the Company's technical and operational know-how to deliver quality Internet products and services to users in those markets.

The Board believes that the terms of the Subscription are on normal commercial terms and fair and reasonable, and that the transactions contemplated under the Subscription Agreement are in the interests of the Company and the shareholders as a whole. The independent board committee, comprising the independent non-executive Directors, will provide a letter of advice to the independent shareholders of the Company in the circular to be despatched to shareholders opining on the terms of the Subscription.

CONNECTED TRANSACTION

MIH China is a substantial shareholder of the Company. DST is the holding company of Mail.ru, and MIH China controls more than 30% of the voting power at a general meeting of Mail.ru. As a result, DST is a connected person of the Company. Accordingly, the entering into of the Subscription Agreement constitutes a connected transaction of the Company under the Listing Rules. As one of the relevant percentage ratios prescribed under Rule 14.07 of the Listing Rules exceeds 2.5%, the Subscription is subject to the approval of the independent shareholders of the Company.

In accordance with Rule 14A.45 of the Listing Rules, details of the connected transaction disclosed in this announcement will be included in the Company's next published annual report and accounts.

DISCLOSEABLE TRANSACTION

In addition, the Subscription also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules as one of the relevant percentage ratios prescribed under Rule 14.07 of the Listing Rules exceeds 5% but is less than 25%.

IMPLICATIONS UNDER THE LISTING RULES

As one of the relevant percentage ratios prescribed under Rule 14.07 of the Listing Rules exceeds 2.5% and the entering into of the Subscription Agreement constitutes a connected transaction of the Company under the Listing Rules, the Subscription is subject to the approval of the independent shareholders of the Company.

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.

An independent board committee of the Company, comprising the independent non-executive Directors, has been established and will advise the independent shareholders of the Company as to whether the terms of the Subscription are on normal commercial terms and fair and reasonable, and whether the transactions contemplated under the Subscription Agreements are in the interests of the Company and the shareholders as a whole. An independent financial adviser, Credit Suisse, has also been appointed to advise the independent board committee and the independent shareholders in respect of such terms.

A circular containing, among other things, (i) details of the Subscription; (ii) a letter from the independent financial adviser containing its advice to the independent board committee and the independent shareholders; and (iii) recommendation from the independent board committee, will be despatched to the shareholders as soon as practicable.

Closing is conditional on the conditions set forth in the Subscription Agreement, having been fulfilled or waived in accordance with the terms thereof. Accordingly, regardless of any expectations of Closing as stated herein, shareholders and potential investors in the Company should be aware that there is no assurance that any of the Closings will take place or as to when it may take place. Shareholders and potential investors in the Company should therefore exercise caution when dealing in or investing in the securities of the Company.

DEFINITIONS

Term	Meaning
“Ancillary Agreements”	the ancillary agreements entered into in connection with the Subscription
“Board”	Board of Directors

Term	Meaning
“Class A Shares”	the Class A shares with par value of US\$0.01 each in the share capital of DST
“Class C Shares”	the Class C shares with par value of US\$0.01 each in the share capital of DST
“Closing”	the First Closing and/or the Second Closing (as the context requires)
“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
“connected transaction”	has the meaning ascribed to it under the Listing Rules
“Credit Suisse”	Credit Suisse (Hong Kong) Limited, a licensed institution under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
“Directors”	directors of the Company
“DST”	Digital Sky Technologies Limited, a company incorporated under the laws of the British Virgin Islands
“DST Board”	board of directors of DST
“Encumbrance”	any mortgage, charge, pledge, lien, assignment, hypothecation, security interest, title retention, encumbrance or any other security agreement or arrangement, or any agreement to create any of the above
“First Closing”	closing of the subscription for, and issue and allotment of, the First Shares
“First Shares”	has the meaning ascribed to it under the section headed “Consideration and Payment Terms” in this announcement
“Group”	the Company and its subsidiaries

Term	Meaning
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“holding company”	has the meaning ascribed to it under the Listing Rules
“Investor”	TCH Amur Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“MIH China”	MIH China (BVI) Limited, a limited liability company incorporated under the laws of the British Virgin Islands, a substantial shareholder of the Company
“Ordinary Shares”	the ordinary shares with a par value of US\$0.01 each in the share capital of DST
“PRC”	People’s Republic of China
“Regulatory Authority”	any stock exchange (including the Stock Exchange) or any regulatory, governmental or antitrust body (including any tax authority)
“Second Closing”	closing of the subscription for, and issue and allotment of, the Second Shares
“Second Shares”	has the meaning ascribed to it under the section headed “Consideration and Payment Terms” in this announcement
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for, and the issue and allotment of, up to 8,114 Ordinary Shares by the Investor pursuant to the Subscription Agreement
“Subscription Agreement”	the share subscription agreement dated 12 April 2010 entered into between the Investor and DST
“subsidiary”	has the meaning ascribed to it under the Listing Rules

Term	Meaning
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

In this announcement, for reference purpose only and unless otherwise stated, US\$ has been translated into HK\$ at an exchange rate of US\$1.00 to HK\$7.76. Such translation shall not be construed as a representation that any amount in US\$ or HK\$ has been, could have been, or could be converted at the above rate or any other rates or at all.

By Order of the Board
Ma Huateng
Chairman

12 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.