In addition to other information in this Prospectus, you should carefully consider the following risk factors before purchasing the Offer Shares, which may not be typically associated with investing in equity securities of companies from other jurisdictions. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected.

RISKS RELATED TO OUR BUSINESS

Our business plan is based on a new business model that may not be successful, and we may not be successful in implementing our future business strategies.

Many of the elements of our business plan are unique and relatively unproven. The market for our technology and services is new and rapidly developing. Our business plan depends upon increased revenues from value-added Internet and telecommunications services and products and these are emerging market spaces with a comparatively short track record. In addition, we may not be successful in implementing our future business strategies, including increasing our revenues through the delivery of online entertainment services and enterprise software products. Many consumers in China have limited experience purchasing services and products such as instant messaging, online entertainment services and other value-added telecommunications services. Our current user base still only comprises a comparatively small percentage of the Chinese market. To be successful, we must continue to develop and market services and products that will achieve broad market acceptance by Internet and telecommunications users in China. Although we have achieved significant growth in the past three years, we cannot assure you that this level of significant growth will be sustainable or achieved at all in the future due to the reasons set forth above or for other reasons. No assurance can be given that we will be able to successfully develop and market such services and products to effectively implement our future business strategies.

If Tencent Computer or Shiji Kaixuan are unable to maintain existing, and establish new, arrangements with mobile and other telecommunications operators, our business will suffer.

The Company and the WFOEs receive a significant portion of their revenues from technical support, consulting, licensing and other fees paid by Tencent Computer and Shiji Kaixuan. Tencent Computer and Shiji Kaixuan offer many of the value-added services through network platforms operated by mobile and other telecommunications operators. They provide the platform for end-users to enjoy value-added telecommunications services, driving traffic on the operators' networks and increasing mobile data revenues and bandwidth utilization. See "Business-Strategic Relationships". Tencent Computer and Shiji Kaixuan, as the case may be, currently have contracts with China Mobile, China Unicom and other telecommunications operators in China, and have generated a significant portion of their revenues from those contracts. Substantially all of the fees for our mobile value-added services and a majority of the fees for our Internet value-added services are separately settled and collected for us by the 29 affiliates of China Mobile and 15 affiliates or branches of China Unicom. Any impairment in Tencent Computer's or Shiji Kaixuan's relationships with these network operators, including the failure to renew existing contracts on favorable terms when they expire, would impact our business, including the ability of Tencent Computer and Shiji

Kaixuan, as the case may be, to deliver to customers value-added telecommunications services and products. We would lose access to the customers of Tencent Computer's and Shiji Kaixuan's value-added telecommunications services and products. We would also not have access to these network operators' billing and collection infrastructures that we rely on in receiving revenues from customers of Tencent Computer's and Shiji Kaixuan's value-added telecommunications services and products. If our relationships through Tencent Computer or Shiji Kaixuan with these network operators are terminated, curtailed or renewed on terms that may be unfavourable to us, including the reduction of the fees paid by the operators, our business will suffer, which will have a material and adverse effect on our financial condition and results of operations.

As we depend on mobile operators to maintain accurate records concerning the fees paid by customers for mobile value-added services and our portion of those fees, and we have had to make estimates on occasion as to what revenues we should record in this regard, any errors in this process could adversely affect our results of operations.

China Mobile and China Unicom pay us a portion of the fees they receive from their customers for the mobile value-added services we provide, and we depend on their ability to maintain accurate records of the services we provide through their networks and related fees paid. We do not collect fees from these operators in limited circumstances in the event of technical limitations or failures with their billing and transmission systems. The rate of these billing and transmission failures varies among the operators and also changes from month to month. Billing and transmission failures may result in a material reduction in our mobile value-added services revenues. Changes in the mobile operators billing or accounting systems may require us to make costly changes to our accounting systems and may materially disrupt our operations.

In addition, we have only limited means to independently verify the information provided to us in this regard, and our results of operations could be materially and adversely affected if these companies miscalculate the revenues from the services and our portion of the revenues. We record revenues from mobile value-added services based on our share of the services fees received or receivable from the mobile operators and recognize such revenues on an accrual basis as the services are rendered based on our own statistical records. Recognizing revenues based on an accrual basis could potentially require us to later make adjustments in revenues (including making provisions for uncollected receivables from the mobile operators) if the mobile operators' actual payments to us are lower than expected, which could have a material and adverse effect on our reported profitability.

Our revenues will be adversely impacted if mobile or other telecommunications operators refuse to pay, or delay payment of, fees to Tencent Computer or Shiji Kaixuan.

It has been reported in the press that one mobile operator has refused to pay, or delayed payment of, fees owing to some of our competitors pursuant to arrangements similar to those entered into by Tencent Computer and Shiji Kaixuan with such mobile operator on the basis of such mobile operator's concerns about the type of content available to subscribers provided by the competitors' services. There can be no assurance that a mobile or other telecommunications operator will not refuse to pay, or delay payment of, fees owing to Tencent Computer or Shiji Kaixuan on this basis or any other basis in the future. Such refusal to pay or delay in payment could have a material and adverse effect on our business, financial condition and results of operations.

Tencent Computer's and Shiji Kaixuan's ability to provide value-added mobile services and products could be constrained if network operators insist on exclusivity provisions and Tencent Computer or Shiji Kaixuan, as the case may be, is deemed not to be in compliance with such provisions.

Tencent Computer currently has contracts with China Mobile and China Unicom. Several provincial subsidiaries of China Mobile have insisted that Tencent Computer enters into arrangements with them that include exclusivity provisions. Such exclusivity provisions currently only relate to value-added mobile services and only refer to Tencent Computer and do not apply to affiliates or associates of Tencent Computer. The Company believes that Tencent Computer has undertaken steps to comply with such exclusivity provisions by not conducting any business that violates such exclusivity provisions, but there can be no assurance that in the future Tencent Computer or Shiji Kaixuan, if it becomes subject to such provisions, will not be alleged to be in violation of such provisions or that a network operator will not insist on stricter exclusivity provisions that would effectively prevent the affiliates and associates of Tencent Computer and Shiji Kaixuan from delivering their value-added mobile services and products to subscribers of other network operators. The imposition of such strict exclusivity provisions could have a material and adverse effect on our business, financial condition and results of operations.

If business conditions of mobile operators deteriorate, our business operations and financial condition may be materially and adversely affected.

Our business relies heavily on fees collected by China Mobile and China Unicom from their customers, although we expect the portion of fees collected through other operators to increase. Most of the mobile value-added services and a number of Internet and other telecommunications value-added services that Tencent Computer and Shiji Kaixuan offer are provided through China Mobile and China Unicom, as the case may be. Accordingly, the success of mobile, Internet and telecommunications value-added business depends on how successfully the mobile operators market their mobile telecommunications services in general and their operating policies from time to time, all of which are beyond our control. In addition, if business conditions of mobile operators deteriorate or the mobile operators become subject to increased pressure to improve profitability, they may insist on retaining a higher portion of the fees they receive from customers for the mobile value-added services that Tencent Computer and Shiji Kaixuan, as the case may be, provide through their networks. In response to increasing demand to protect customers, mobile operators may also impose stricter operating guidelines on value-added service providers, such as Tencent Computer and Shiji Kaixuan. Those stricter guidelines could impair our ability to market some of our services and products.

We operate in a very competitive market.

We face significant competition from other domestic value-added telecommunications service providers that provide services that are similar to those provided by us. We compete most directly with Internet portals in China to provide comprehensive mobile value-added services to customers. In addition, with the opening of investment in value-added telecommunications businesses to foreign investors, we may face increased competition from international competitors that may establish joint venture companies with local companies to provide services based on the foreign investors' technology and experience developed in their home markets. PRC's accession to the WTO may significantly increase competition from international companies due to, among other reasons, gradual regulatory changes made following the WTO accession to enable international companies to access Chinese markets. Some or all of the telecommunications network operators may also offer competitive services. These competitors may have greater financial and other resources than we do, and may be able to react more quickly to changing consumer requirements and demands, deliver competitive services at lower prices and more effectively respond to new Internet technologies or technical standards than we can. Moreover, present or future competitors may offer services and products that provide more favorable technology, performance and pricing than we can provide, and may offer other advantages over our services and products, with the result that their services and products could achieve greater market acceptance than our services and products. An increasingly competitive environment may result in the employment of unfair business practices by our competitors against us, and we may have difficulties in obtaining remedies against such actions. Any increase in competition could erode our market share, result in a fall in subscriber numbers and traffic over our platform, lead to price reductions and increased spending for marketing and development. Any of these events could have a materially adverse effect on our business, which in turn would have a material and adverse effect on our financial condition and results of operations.

If we are unable to maintain existing, and establish new, arrangements with device manufacturers, our business could suffer.

We derive benefits from our arrangements with device manufacturers, including mobile phone manufacturers, and we work with these device manufacturers to install our applications onto their devices for use by purchasers of their devices. Although we currently have contracts with a number of device manufacturers in China, including mobile phone manufacturers, an interruption in our relationships with such manufacturers could have an adverse impact on our business, including our profitability and the ability to deliver to consumers value-added mobile services and products.

Our business depends on the continuing contributions of our key executives and employees, and our business may be severely disrupted if we lose their services.

Our future success depends upon the continued services of our key executives, particularly the Core Founders. We rely on their expertise in business operations, including the development of new value-added services and products, as well as maintaining the Company's and the WFOEs' relationships with Tencent Computer, Shiji Kaixuan and other strategic partners. We have no "key man" insurance with respect to our key executives that would provide insurance coverage payable to us for loss of their employment due to death or otherwise. If one or more of our key executives are unable or unwilling to continue in their present positions, we may not be able to replace them within a reasonable period of time if at all, and our business may be severely disrupted, our financial conditions and results of operations may be materially and adversely affected, and we may incur additional expenses in recruiting and training additional personnel.

Additionally, if any of our key executives joins a competitor or forms a competing business, our business may be disrupted. Each of our key executives has entered into an employment agreement with us, which contains confidentiality and non-competition provisions. Although the Company has been advised by its Hong Kong counsel that these contractual arrangements are enforceable under current Hong Kong law, and by its PRC counsel that the execution of such contracts by the PRC citizens does not violate current PRC laws, if any disputes arise between one of our executive officers and us, there can be no assurance that any of these agreements will be enforceable.

Our future success will also depend on our ability to attract and retain highly skilled technical, managerial, editorial, marketing and customer service personnel. Qualified individuals are in high demand, and we may not be able to successfully attract, assimilate or retain the personnel we need to succeed.

Because our operating history is limited and the revenues and income potential of our businesses is unproven, we cannot predict whether we will meet internal or external expectations of future performance.

We believe that our future success depends on our ability to significantly increase revenues from our operations, for which we have a limited operating history. Tencent Computer commenced operations in November 1998. Accordingly, our prospects must be considered in light of the difficulties and other risks customarily encountered by companies in an early stage of development, particularly companies in the new and rapidly evolving value-added Internet and telecommunications industries. These risks include our ability to:

- derive revenues from our users from fee-based services;
- attract customers for our instant messaging services and content;
- maintain our current, and develop new, strategic relationships;
- respond effectively to competitive pressures;
- address the effects of strategic relationships or corporate combinations among our competitors;
- increase awareness of our brand and continue to build user loyalty;
- attract and retain qualified management and employees;
- attract advertisers;
- upgrade our technology to support increased traffic and expanded services; and
- expand the content and services on our network.

We cannot assure you that we will be able to increase, or maintain the current level of, revenues from our business operations.

If we are unable to develop or source popular content and applications, our business could suffer.

One of our principal strengths is the ability of our services and products to create a distinct online community. We rely on a number of third parties to create traffic and provide content in order to make our websites and services more attractive to consumers and advertisers, and thus sustain and grow our online community. Third parties providing content to our websites and services include both commercial content providers with which we have contractual relationships and our registered community members who post articles and other content on our websites. If these third parties fail to develop and maintain high-quality content, our websites could lose viewers and advertisers. Most of our contractual arrangements with third-party content providers are not exclusive and are short-term, or may be terminated at any time for any reason by either party. There can be no assurance that our existing relationships with commercial content providers, if maintained, will result in sustainable business partnerships, successful service offerings and an acceptable level of traffic on our websites or revenues for us, or will not be terminated.

Online games currently are one of the fastest growing online services in China. We develop and source online games for our customers. However, if we are unable to develop or, at a reasonable cost to us, source games that are popular among our customer base, our online games business will not grow.

If we fail to maintain our brand recognition, we may face difficulty in obtaining new business partners and consumers, and our business may be harmed.

While our QQ brand is well recognized throughout China, we believe that maintaining and enhancing the QQ brand is a critical aspect of our efforts to grow our customer base and obtain additional business partners. Our main competitors also have established brands and are continuing to take steps to increase their brand recognition. The use of words similar to the QQ brand by third parties in other industries could dilute our brand recognition. If we are for any reason unable to maintain and enhance our brand recognition, this could have a material and adverse effect on our business, operating results and financial condition.

If we fail to develop successfully and introduce new services and products, or adopt new technologies, our competitive position and ability to generate revenues from value-added Internet and telecommunications services and products may be harmed.

The Company and the WFOEs, directly and in cooperation with Tencent Computer and Shiji Kaixuan, are developing new services and products. The timing of introduction of new services and products is subject to risks and uncertainties. Unexpected technical, operational, logistical, regulatory or other problems could delay, or prevent, the introduction of one or more of these products or services, or any other products or services that we may plan to introduce in the future. Moreover, we cannot be sure that any of these services and products will match those developed by our competitors, achieve widespread market acceptance or generate incremental revenues.

The technology used in Internet and telecommunications value-added services and products and the related technology standards can be expected to undergo rapid changes. Our current business consists principally of instant messaging-based services. As the technology evolves to accommodate multi-media messaging services and products, we will need to adapt to, and support, these services and products in order to be successful. If we fail to anticipate and adapt to these and other technological changes, our market share and our business could suffer, which in turn would have a material and adverse effect on our financial condition and results of operations.

We rely on online advertising sales for a portion of our revenues, but the Internet has not been proven as a widely accepted medium for advertising.

The Company and the WFOEs expect to derive a portion of revenues for the foreseeable future from online advertising in cooperation with Tencent Computer and Shiji Kaixuan. If the Internet is not accepted as a medium for advertising, our ability to generate revenues will be adversely affected.

There can be no assurance that the market for online advertising in China will grow. To date, online advertising has not been widely accepted as an advertising medium in China, and there can be no assurance that online advertising will develop into a common channel for advertising in that market. The long-term acceptance of the Internet as a medium for advertising depends on the development of a broadly accepted measurement standards, which to date have not been developed. Industry-wide standards may not develop sufficiently to support the Internet as an effective advertising medium. If these standards do not develop, advertisers may choose not to advertise on the Internet in general or through our advertising space. This would have a material and adverse effect on our business, financial condition and results of operations.

In addition, the development of web software that blocks Internet advertisements before they appear on a user's screen may hinder the growth of online advertising. The increasing use of such advertisement blocking on the Internet may decrease our revenues from online advertising because when an advertisement is blocked, it is not downloaded from our server, which means that such advertisements are not tracked as a delivered advertisement. Advertisers may choose not to advertise on the Internet in general or through our advertising space because of the use of Internet advertisement blocking software. The use of Web software that blocks Internet advertising may have a material and adverse effect on our business.

We may not be able to prevent unauthorized parties from using our intellectual property, which may harm our business and expose us to litigation.

We regard our intellectual property as critical to our success. We seek to protect our intellectual property rights by relying on a combination of patent, copyright and trademark protection and confidentiality laws and contracts. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to use our intellectual property. Since we operate in a legal regime that is still developing, the protection of intellectual property rights, the protection and enforcement of our intellectual property rights may not be as effective as in countries with a more mature legal system. Moreover, policing and enforcing unauthorized use of proprietary technologies is difficult and expensive. The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology. Any misappropriation could have a material and adverse impact on our business, financial condition and results of operations. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in material costs.

We may be exposed to infringement claims by third parties, which, if successful, could cause us to pay significant damage awards.

Although we have not been subject to any such legal action to date, in the future, we may receive notices of claims of infringement of third parties' proprietary rights or claims for indemnification resulting from infringement claims resulting from our use of technology. We may also become subject to claims that the content we offered on our Internet portals in the past was in fact protected by third parties' trademark and copyright ownership rights without obtaining a license from such third parties. We have strengthened our material guidelines and procedures to reduce the likelihood that third party content might be used without proper licenses. In the event of a successful claim of infringement, we may be subject to damages. Our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis could harm our business. In addition, even if we are able to license the infringed or similar technology, license fees could be substantial and may have a material and adverse effect on our results of operations.

Rapid growth and a rapidly changing operating environment strain our limited resources.

We anticipate expansion of our business as we seek to grow our customer base and pursue market opportunities. We have limited operational, administrative and financial resources, which may be inadequate to sustain the growth we plan to achieve. As our audience and their Internet use increase, as the demands of our audience and the needs of our customers change and as our business activities increase, we will need to increase our investment in network infrastructure, facilities and other areas of operations in cooperation with Tencent Computer and Shiji Kaixuan, and we will be required to improve existing, and implement new, operational and financial systems, procedures and controls, and to expand, train and manage our growing employee base. Further, our management will be required to maintain, and expand, our relationships with telecommunications operators, Internet and other online service and content providers and other third parties necessary to our business. If we are unable to manage our growth and expansion effectively, the quality of our service could deteriorate and our business may suffer and our results of operations may be materially and adversely affected.

We may be held liable to third parties for information displayed on, retrieved from or linked to our websites or for information delivered or shared through our services.

As a publisher and distributor of content and a provider of value-added telecommunications services, we may face liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that are published on our websites or delivered or shared through our services. We could also be subject to claims based upon content that is accessible on our websites or through our services, such as content and materials posted by users on message boards, online communities, voting systems, email or chat rooms that are offered on our websites or through our services. By providing technology for hypertext links to third-party websites, we may be held liable for copyright or trademark violations by those third-party sites. Third parties could assert claims against us for losses incurred in reliance on any erroneous information distributed by us.

We may incur significant costs in investigating and defending ourselves against these claims, even if they do not result in liability. These claims could have a material and adverse effect on our business.

Online communications among our users may lead to personal conflicts, which could damage our reputation, lead to government investigation and have a material and adverse effect on our business.

Our users engage in highly personalized exchanges over our platform. Users who have met online through our services may become involved in emotionally charged situations and could suffer adverse moral, emotional or physical consequences. Such occurrences could be highly publicized and have a significant negative impact on our reputation. Government authorities may require us to discontinue or restrict those services that would have led, or may lead, to such events. As a result, our business would suffer and our user base, revenues and profitability would be materially and adversely affected.

Privacy concerns or inaccurate information may harm our reputation and prevent us from selling demographically targeted advertising in the future which could make our advertising space less attractive to advertisers.

We collect personal data from registered users with the prior consent of such users in order to understand users and their needs better. We use various data to provide targeted advertising services for our advertising customers. If privacy concerns or regulatory restrictions prevent us from collecting or using this information or from selling demographically targeted advertising, the advertising space generated by the QQ software client and our websites may be less attractive to advertisers. We rely solely on the information provided by registered users and do not verify the authenticity of such data. If the information that we collect for targeted advertising is materially inaccurate or false, this may also cause the advertising space generated by the QQ software client and our websites to become less attractive to advertisers.

Unexpected network interruption caused by system failures or computer viruses may reduce visitor traffic, reduce revenues and harm our reputation.

Both the continual accessibility of websites and the performance and reliability of their technical infrastructure as well as the delivery of IM services are critical to our reputation and our ability to attract and retain users and advertisers. Any system failure or performance inadequacy that causes interruptions in the availability of our services or increases the response time of our services could reduce user satisfaction and traffic, which would reduce our websites' appeal to users and advertisers. As the number of our web pages and traffic increase, there can be no assurance that we will be able to scale our systems proportionately. In addition, any system failures and electrical outages could have a material and adverse effect on our business.

Computer viruses may also cause delays or other service interruptions on our systems. In addition, the inadvertent transmission of computer viruses could expose us to a risk of loss or litigation and possible liability. In addition, a hacker may breach our security system and sabotage our network or services. We may be required to expend significant capital and other resources to protect our websites against the threat of such computer viruses and hackers and to alleviate any problems caused by computer viruses or hackers. Moreover, if a computer virus affecting our system is highly publicized, our reputation could be materially damaged and our visitor traffic may decrease, which could result in a material and adverse effect on our business. Furthermore, the damages or losses caused by computer viruses to users may lead to litigation and result in additional liabilities to us.

We are vulnerable to natural disasters and other events, as we only have limited backup systems.

We have limited backup systems and have experienced system failures and electrical outages from time to time in the past, which have disrupted our operations. All of our servers and routers are currently hosted in Shenzhen, Beijing and Shanghai, with a significant number in Shenzhen. We do not maintain any back-up servers outside these cities. We do not have a disaster recovery plan in the event of damage from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, terrorist acts and similar events, and our existing back-up systems may not be effective for such events. If any of the foregoing occurs, we may experience a complete system shut-down. To improve the performance and to prevent disruption of our services, we may have to make substantial investments to deploy additional servers to mirror our online resources. For a related discussion, see "—We have limited insurance coverage".

Concerns about the security of our transaction systems and confidentiality of information on the Internet and mobile telecommunications networks may reduce use of our network and impede our growth.

A significant barrier to electronic transaction settlement and communications over the Internet and mobile telecommunication networks in general has been a public concern over security and privacy, especially the transmission of confidential information. If these concerns are not adequately addressed, they may inhibit the growth of value-added telecommunications services generally, especially as a means of conducting commercial transactions. If a well-publicized breach of security were to occur, general usage of telecommunications value-added services could decline, which could reduce our user traffic and impede our growth. Our current security measures may not be adequate. For example, personal data of our users could be stolen and misused. Such security breaches could expose us to litigation and possible liability for failing to secure confidential customer or supplier information and could harm our reputation and ability to attract customers.

Online payment systems in China are at an early stage of development and may restrict our ability to expand our online services business.

Online payment systems in China are at an early stage of development. Although major banks in China are instituting online payment systems, these systems are not as widely available or acceptable to consumers in China as in countries with more mature online payment systems. In addition, only a limited number of consumers in China have credit cards or debit cards. At present, we have avoided the problems entailed in the underdeveloped online payment systems by billing customers for online services indirectly through mobile and other telecommunications operators under our contractual arrangements with those operators. However, if we are not able to utilize such indirect billing arrangements to charge subscribers for all or some of the online transactions entered into on our websites or provided by our services, the lack of adequate online payment systems might limit the number of online commerce transactions that we can service and have a material and adverse effect on our business.

The continued growth of the value-added telecommunications market and the Internet market in China depends on the continued investment in the fixed line and mobile telecommunications infrastructure.

There can be no assurance that the national information infrastructure in China will continue to be developed, or that we will have access to alternative networks and services, on a timely basis, if at all, in the event of any infrastructure disruption or failure. If the necessary telecommunications and Internet infrastructure standards or protocols or complementary products, services or facilities are not developed, the growth of our business will be hindered.

We may need additional capital, and we may not be able to obtain it.

We believe that our current cash and cash equivalents, cash flow from operations and the proceeds from the Offering will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain a credit facility. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including our future financial condition, results of operations and cash flow, share price performance and the liquidity of international capital markets. In addition, the issuance of additional equity securities could result in additional dilution to our Shareholders. Incurring indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, if at all.

Future acquisitions may have an adverse effect on our ability to manage our business.

As part of our strategy to further expand our business, if we are presented with appropriate opportunities, we may acquire additional assets, products, technologies or businesses that are complementary to our existing business. Future acquisitions and the subsequent integration of new assets and businesses into ours would require attention from our management and result in diversion of resources from our existing business. The diversion of our management's attention and resources and any difficulties encountered in any integration process could have an adverse effect on our ability to manage our business. Acquired assets or businesses may not yield the results we expect. In addition, acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to goodwill and other intangible assets and exposure to potential unknown liabilities of acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant. In addition to possible regulatory or shareholders' approval in Hong Kong, we may also have to obtain approval from the relevant government authorities for the acquisitions and have to comply with any applicable laws and regulations, which could result in increased costs and delay.

We have limited insurance coverage.

Insurance companies in China offer limited business insurance products. As a result, although we have insurance for property damage, we do not have any business liability or disruption insurance coverage for our operations in China, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business and reputation. Any business disruption, litigation or natural disaster could expose us to substantial costs and losses.

We may not be able to pay dividends in accordance with our currently proposed dividend policy.

During the three years ended December 31, 2003, we had one special cash dividend payment in an amount equal to RMB10.3 million, or RMB0.008 per ordinary share (post share-split), and after December 31, 2003, we had one special cash dividend payment in an amount equal to RMB28.9 million, or RMB 0.023 per ordinary share (post share-split). We currently intend to pay annual cash dividends in the future as described in "Financial Information—Dividends and Dividend Policy". However, we may not be able to or may elect not to pay cash dividends. For instance, if we encounter business difficulties, we may not be able to pay dividends. Our Board of Directors may also decide not to recommend dividends if the Board of Directors believes retaining our cash will be prudent for our business operations or our expansion plan.

In the future, we may not be able to achieve the revenue growth that we have been able to achieve in the past three years.

Our historical financial results for the three years ended December 31, 2003 presented in this Prospectus reflect significant growth in revenues during those years. Specifically, revenues for the year ended December 31, 2003 increased 14-fold from revenues for the year ended December 31, 2001. The growth in revenues reflect the expansion of Internet value-added services and mobile and telecommunications value-added services in China generally, and the launch of our various services and products specifically. We cannot assure you that we will be able to sustain such growth in the future.

If the number of dropped messages increase due to deterioration of mobile operators' networks, our revenues could be materially and adversely affected.

From time to time, we are unable to collect a portion of our fees for services provided due to "dropped messages". Dropped messages are messages that were sent to the mobile operators' system but were not delivered to the end-users. The number of dropped messages may increase in the future if the mobile operators' network deteriorates or if the mobile operators' network capacity is insufficient to meet future customer demand. If the number of dropped messages increases, our revenues could be materially and adversely affected.

The failure of telecommunications network operators to provide us with bandwidth and server custody and of our suppliers to provide content as expected could hurt our business.

Our operations depend on obtaining bandwidth and server custody from network operators and content from third-party suppliers in a timely manner. Our largest supplier accounted for approximately 15% of our purchases in 2003 and our five largest suppliers accounted for approximately 59% of our purchases in 2003. In some cases, it may be difficult for us to substitute one supplier or one product for another. Some of the services and products that we require are only available from a limited number of suppliers. Our results of operations could be materially and adversely affected if any of our suppliers fail to deliver to us the services or products we expect.

Deterioration in our relationships with, or financial difficulties encountered by, major operators may hurt our business.

The single largest provincial network operator through which we collect revenues accounted for approximately 12% of our revenues for 2003 and our five largest provincial network operators through which we collect revenues accounted for approximately 39% of our revenues for 2003. Any deterioration in our relationships with such network operators or any financial difficulties that such network operators may encounter from time to time may materially and adversely affect our business and results of operations.

RISKS RELATED TO OUR STRUCTURE

There is no assurance that the contractual arrangements that the Company and the WFOEs have entered into with Tencent Computer and Shiji Kaixuan are in compliance with PRC laws and regulations.

Although the Company believes that the Company's and the WFOEs' arrangements with Tencent Computer and Shiji Kaixuan are in compliance with current PRC laws and regulations and the Company has been advised by its PRC counsel that these contractual arrangements are in compliance with current PRC laws and regulations, there can be no assurance that these contractual arrangements will be deemed by the relevant government authorities to be in compliance with current PRC laws and regulations or that the MII or other government authorities will not in the future interpret existing laws, regulations or policies, or issue new laws, regulations or policies, with the result that all or some of these contractual arrangements would be deemed to be in violation of PRC law. In particular, any acquisition of assets of or equity interests in Tencent Computer or Shiji Kaixuan may be required to comply with the laws and regulations applicable to such transaction at that time. Any such determination that these contractual arrangements are not in compliance with current PRC laws, regulations, rules or policies, or any new interpretations or newly issued laws, regulations, rules or policies could result in the Group being required to restructure its organizational structure and operations and, thus, may result in disruption of our business, diversion of management attention and the incurrence of substantial costs.

Due to regulatory limitations, the Company conducts some of its business in China through entities in which neither the Company nor the WFOEs have any direct ownership interest. These arrangements may not be as effective in providing control as direct ownership.

Current PRC laws and regulations limit foreign investment in, and only allow foreign investors to own up to 50% equity interest in, businesses providing value-added telecommunications services, including SMS and other telecommunications-related information services, in the PRC. The Company and the WFOEs have entered into contractual arrangements with Tencent Computer and Shiji Kaixuan who have licenses to provide Internet content, to operate the portals, and to provide value-added telecommunications services to customers in China. Neither the Company nor the WFOEs have any ownership interest in Tencent Computer or Shiji Kaixuan. Through a series of contractual arrangements that the Company and the WFOEs have entered into with Tencent Computer and Shiji Kaixuan, the Company and the WFOEs exercise effective control over Tencent Computer and Shiji Kaixuan and obtain substantially all of the revenues in the form of technical support, consulting, licensing and other fees. Although we have been advised by our PRC counsel that these contractual arrangements are in compliance with, and enforceable under, current PRC laws and regulations, these arrangements are not as secure as direct ownership over these businesses and may not be as effective in providing control over these entities as direct ownership.

If Tencent Computer or Shiji Kaixuan fails to comply with, or refuses to renew, our contractual arrangements with them, our business would be disrupted and our revenues could decrease significantly.

The Company and the WFOEs have entered into contractual arrangements with Tencent Computer and Shiji Kaixuan that have licenses to provide Internet content, to operate the portals, and to provide value-added telecommunications services to customers in China. If Tencent Computer or Shiji Kaixuan violates the contractual arrangements through which the Company and the WFOEs exercise effective control over Tencent Computer and Shiji Kaixuan and from which we obtain substantially all of our revenues in the form of technical support, consulting, software sales, licensing and other fees, we would have to rely on legal remedies under the PRC legal system to enforce these contractual arrangements which may be less effective than in other jurisdictions. Any legal proceedings could result in the disruption of our business and result in substantial costs to us. There can be no assurance that the results of such legal proceedings would be satisfactory to us. In addition, these contracts expire at a specific time, and we may have difficulty renewing these contracts if the Company's relationship with the shareholders of Tencent Computer and Shiji Kaixuan deteriorates or due to other reasons.

Our plan to establish a FITE may not proceed smoothly or at all or may lead to unanticipated costs and disruption to our business.

The value-added telecommunications services are currently provided by Tencent Computer and Shiji Kaixuan due to PRC legal and regulatory limitations with respect to foreign investment in such businesses. However, in connection with the PRC's accession to the WTO, PRC law was recently revised to allow a value-added telecommunications provider to be structured as a FITE. In order to secure an ownership interest in the entity that holds the value-added telecommunications license, we intend to establish a FITE in which the Company will own a 50% equity interest, which is the highest level of foreign ownership permitted for a value-added telecommunications provider under PRC law. There remains considerable uncertainty regarding the interpretations and applications of the regulations under the newly adopted PRC legislation. Therefore, there can be no assurance that MII and MOFCOM will approve the establishment of the FITE, nor can there be any assurance that MII or MOFCOM will not impose significant conditions or restrictions on the FITE's business. If we are unable to convert either Tencent Computer or Shiji Kaixuan into a FITE, or to establish a new company as a FITE, in which we plan to hold a 50% interest, we will not be able to hold an ownership interest in a value-added telecommunications provider and will have to continue to rely on the series of contractual arrangements that we currently have with Tencent Computer and Shiji Kaixuan to provide value-added telecommunications services and products to customers. In addition, if the establishment of the FITE is delayed, we may have to satisfy additional requirements under the Listing Rules. Even if we establish the FITE as planned, the establishment of the FITE may also require us to adjust our operations, which could lead to unanticipated costs and disruption of our business.

The preferential tax treatment currently enjoyed by the WFOEs, Tencent Computer and Shiji Kaixuan may be challenged or revoked in the future, and the recognition of revenues outlined in our intra-group contracts could be challenged by the tax authorities.

We have structured and located the WFOEs in order to benefit from preferential tax treatments offered to companies located in designated economic zones and/or operating software-related businesses. Some of these tax treatments are subject to the continued satisfaction of conditions specified in relevant regulations. Although the relevant governmental authority has granted such preferential tax treatment to the WFOEs, Tencent Computer and Shiji Kaixuan, there can be no assurance that we will always be able to satisfy the conditions under which these treatments are provided and that these treatments, or the regulations that provide for such preferential tax treatments, will not later be challenged and/or revoked. For a detailed discussion of our tax holidays, see "Financial Information—Road Map of Our Consolidated Profit and Loss Accounts—Taxation".

Due to the legal constraints in relation to foreign investment in the telecommunications value-added services industry in the PRC, we adopted our existing structure and a number of agreements have been entered into between members of the Group whereby the Company, Tencent Technology and Shidai Zhaoyang Technology derive substantially all their revenues from transactions with Tencent Computer and Shiji Kaixuan. These transactions are related-party transactions, which must be conducted on an arm's-length basis under applicable tax rules and are subject to review. Moreover, the tax authorities have strengthened their enforcement of transfer pricing requirements. As a result, these transactions may be reviewed by the relevant authorities for compliance with transfer pricing rules and the tax treatment of revenues resulting from our accounts may be challenged and deemed not in compliance with these rules, which could have an adverse impact on our financial condition and results of operations and result in possible sanctions by the tax authorities. Any adjustment in transfer pricing, if required or enforced by the tax authorities, could have a material and adverse impact on our taxable profitability.

The Company's current Shareholders, whose interest may be different from that of the public Shareholders, will have certain influence over the adoption of Shareholder resolutions after the Offering.

The Company's Shareholders immediately prior to the Offering comprise the 12 Founders and MIH. The 12 Founders each holds Shares in the Company and together hold 50.0% of its share capital, and MIH holds the remaining 50.0%. Each of the 12 Founders and MIH will not reduce their number of Shares immediately after or as a result of the Offering. For a period ending on March 23, 2007, each Founder has agreed to vote for the appointment of two MIH representatives to the Board, and MIH has agreed to vote for the appointment of two Founders' representatives to the Board of Directors. They will also take all necessary actions within their respective authority to ensure that the Directors nominated constitute the majority of the Board and the sole directors of each Equity Controlled Subsidiary (as defined under "Relationship with Our Shareholders—Relationship Between MIH and the Founders"). Furthermore, on or before March 23, 2007, any single one Shareholder holding more than 25% of the Shares of the Company will have influence over the outcome of any corporate transaction or other matter submitted to the Company's Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets. For further discussion, see the section entitled "Relationship with our Shareholders".

REGULATORY RISKS RELATED TO PROVIDING OUR SERVICES AND PRODUCTS

We may be adversely affected by complexity, uncertainties and changes in regulation of Internet and value-added telecommunications service companies.

The PRC government heavily regulates its Internet and value-added telecommunications service sectors, including foreign investment in the Internet and value-added telecommunications service sectors, the content restrictions on the Internet and value-added telecommunications services and the licensing and permit requirements for companies in the Internet and value-added telecommunications service sectors. Because these laws, regulations and legal requirements with regard to the Internet and the technologies and services relating to telecommunications value-added services are relatively new and evolving, their interpretation and enforcement involve significant uncertainty. The interpretation and application of existing PRC laws, regulations and policies, the stated positions of the MII and the possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the operations and activities of, Internet and value-added telecommunications services in China, including our business. In some cases, our current or previous services or businesses could be deemed to be in violation of PRC laws or regulations, in which case we may be subject to fines or other penalties and/or may have to cease such business or services. Tencent Technology has entered into agreements, together with Tencent Computer, which could be interpreted as Tencent Technology having provided services outside its approved business scope.

If we fail to obtain or maintain all required licenses, permits and approvals or if we are required to take actions that are time-consuming or costly, our business operations may be materially and adversely affected.

The Group is required to obtain applicable licenses, permits and approvals from different regulatory authorities in order to conduct our business. Over the last several years, various governmental authorities in the PRC have issued regulations regulating specific aspects of Internet content and services. Some of this legislation requires operators to obtain licenses, permits or approvals that were previously not required. There can be no assurance that the government authorities will not continue to issue new regulations governing the Internet that will require the Group entities to obtain additional licenses, permits or approvals in order to operate our existing businesses or will prohibit the operation by the Group entities of those types of businesses to which the new requirements will apply. Among other things, new regulations or new interpretations of existing regulations could increase our costs of doing business and prevent the Group entities from efficiently delivering services and products over the Internet and through mobile operators. These regulations may restrict our ability to expand our customer and user base or to provide services in additional geographic areas.

Tencent Computer has obtained a permit to provide inter-provincial value-added telecommunications services ("Inter-provincial VAS Permit") pursuant to the Measures on the Administration of Telecommunications Business Operating Licenses (電信業務經營許可證管理辦法) on March 22, 2004. Prior to obtaining the Inter-provincial VAS Permit, Tencent Computer held a permit to provide value-added telecommunications services in Guangdong province. The location of Tencent Computer's servers, and the entering into of service agreements with mobile operators, outside Guangdong province prior to March 22, 2004 may be deemed to be a violation of the terms of such permit, which could subject Tencent Computer to fines or other penalties.

Tencent Computer has applied for, but not yet obtained, approval from SPPA to conduct "Internet publishing" (互聯網出版) **("Internet Publishing Approval") under the Interim Provisions on Internet Publishing** (互聯網出版管理暫行規定) **(the "Internet Publishing Regulations")**. The Internet Publishing Approval is an approval relating to part of the publishing activities that may be conducted by an ICP permit holder. The definition of "Internet publishing" under the Internet Publishing Regulations covers the operation of online games and possibly the posting and dissemination of a limited portion of the content on the QQ portal and QQ client terminal devices. Other than the Internet Publishing Approval. Tencent Computer has obtained all necessary and required approvals from the MII, the MOC and the State Council News Office (國務院新聞辦公室) to engage in such activities.

Tencent Computer's application for an approval to conduct Internet publishing was submitted on October 8, 2002, after the September 30, 2002 time limit set by the Internet Publishing Regulations for existing providers of Internet publishing activities. The submission of the application was delayed because of uncertainty as to whether the Internet Publishing

Regulations applied to Tencent Computer's business at that time and the need to obtain additional information about the documentation to be submitted to the approval authority. We understand that SPPA does not intend to reject applications simply because of such delay. In April 2004, Tencent Computer resubmitted the relevant documentation in order to accelerate the approval process. Tencent Computer has not been informed by SPPA of any time frame for the grant of the Internet Publishing Approval or of any intention to reject Tencent Computer's application. However, there can be no assurance that Tencent Computer will obtain such approval. If Tencent Computer does not obtain such approval and the SPPA determines the limited activities described above to be in violation of the Internet Publishing Regulations, Tencent Computer may be required to terminate such activities, the revenues from such activities may be confiscated, and a fine of between RMB10,000 and RMB50,000 (for those activities that have generated no revenue or less than RMB10,000 in revenue) or of five to ten times the amount of relevant revenue (for those activities that have generated revenue of RMB10,000 or more) may be imposed. In addition, the SPPA may seize Tencent Computer's main equipment or specifialized tools primarily used in the provision of the relevant activities. See "Regulation—Applications by Tencent Computer".

If Tencent Computer or Shiji Kaixuan fails to obtain or maintain any of the required licenses, permits or approvals, they may be subject to various penalties, such as fines or suspension of operations in these regulated businesses, or an obligation to increase capital, or other conditions or enforcement actions, which could severely disrupt their business operations. As a result, our financial condition and results of operations may be materially and adversely affected.

If we fail to obtain approval to import online games, or if any of our previous activities with respect to online games is deemed to be in violation of PRC law or regulations, our business and prospects may be materially and adversely affected.

Tencent Computer has not obtained approval from the MOC to import the imported online games ("Imported Games Approval") it currently operates, as required under the Interim Provisions on the Administration of Internet Culture (the "Internet Culture Provisions"), because it is first required to obtain a permit to engage in certain cultural activities via the Internet as defined under the Internet Culture Provisions ("Internet Cultural Activities" (互聯網文化活動)). See "Regulation—Regulation of Online Cultural Activities" for a further description of "Internet Cultural Activities". Tencent Computer obtained this permit on March 10, 2004. On April 6, 2004, Tencent Computer applied to MOC for approval to operate "Sephiroth", the imported MMOG that Tencent Computer started to operate commercially in December 2003. Tencent Computer intends to apply for the Imported Games Approval to operate other online games which it had previously imported by September 1, 2004, in accordance with requirements issued by the MOC. If Tencent Computer fails to obtain such approval, it will have to cease its current operation of the relevant games and will have limitations in growing the online game business. In addition, because Tencent Computer has already imported and operated imported online games without having obtained the Imported Games Approval under the Internet Culture Provisions, its previous activities with respect to imported online games may be deemed to be in violation of PRC laws or regulations. As a result, we may be subject to fines or our ability to provide services relating to Internet Cultural Activities could be materially limited. If the operation of the imported online games by Tencent Computer without an Imported Games Approval is deemed to be in violation of the Internet Culture Provisions, Tencent Computer may be required to terminate the operation of the relevant imported online games for which an Imported Games Approval has not been obtained, a fine of up to RMB 30,000 may be imposed, and if the violation is deemed to be serious, Tencent Computer may be restricted from engaging in the Internet Cultural Activities and its Internet Cultural Operating Permit may be revoked. See also "—If we fail to maintain all our required licenses, permits and approvals or if we are required to take actions that are time-consuming or costly, our business operations may be materially and adversely affected" and "Regulation—Applications by Tencent Computer".

If some of our online games business activities are deemed to be in violation of law in the future, we may have to modify our online games business model, which could have a material and adverse effect on our business and results of operations.

Although we believe that once we obtain the relevant licenses, permits and approvals to conduct our online games business, that business will be in compliance with current PRC laws and regulations, and we have been advised by our PRC counsel that such business will not be in violation of any officially promulgated PRC laws and regulations upon obtaining such relevant licenses, permits and approvals, there can be no assurance that the MII or another government authority will not interpret existing laws, regulations or policies in such a manner so as to, or implement new laws, regulations or policies that, require us to cease or modify our online games business in order to avoid any violation of PRC laws or regulations. Any such modification to our online games business may result in disruption of our business, diversion of management attention and the incurrence of substantial costs. See also "Regulation—Regulations Relating to Our Business—Regulation of Online Gaming Activities".

We may be subject to liability for prohibited content displayed on, retrieved from or linked to our websites or transmitted by means of our services.

The PRC has enacted legislation that restricts the transmission and posting of certain categories of content and state secrets ("Prohibited Content") on the Internet and we may face liability for content posted on our websites or transmitted by means of our services, even if such content is generated by our users. In addition, it is unclear from the relevant legislation what steps we are required to take in order to ensure that Prohibited Content is not posted on, or transmitted by means of, our websites or services and that any Prohibited Content that is posted on, or transmitted by means of, our websites or services is promptly deleted. Thus, there can be no assurance that the government will not determine that Tencent Computer or Shiji Kaixuan is in violation of the existing legislation regarding Prohibited Content and take action against us. Such actions, which could include fines or suspension of business, if taken, could have a material and adverse effect on our business.

We may have to register our encryption software with the regulatory authorities, and if they request that we change our encryption software, our business operations could be disrupted as we develop or license replacement software.

Pursuant to the Regulations for the Administration of Commercial Encryption (商用密碼管理條例) promulgated at the end of 1999, foreign and domestic companies operating in China are required to register and disclose to the regulatory authorities the commercial encryption products they use. Because these regulations do not specify what constitutes encryption products, we are unsure as to whether or how they apply to us and the encryption software we utilize. We may be required to register, or apply for permits with the relevant regulatory authorities for, our current or future encryption software. If the regulatory authorities request that we change our encryption software, we may have to develop or license replacement software, which could disrupt our business operations.

GENERAL RISKS RELATED TO CONDUCTING BUSINESS IN CHINA

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and adversely affect our business and results of operations.

Substantially all of our operations are conducted in China and substantially all of our revenues are sourced from China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to the economic, political and legal developments of the PRC.

The economy of China has historically been a planned economy and has been transitioning to a more market-oriented economy. We cannot predict the future direction of economic reforms in China or the effects these measures may have on our business, financial position or results of operations. In addition, the Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD. These differences include:

- economic structure;
- level of government involvement in the economy;
- level of development;
- level of capital reinvestment;
- control of foreign exchange;
- inflation rates;
- methods of allocating resources; and
- balance of payments position.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

A slow-down of the Chinese economy may slow down our growth and profitability.

Our financial results have been, and are expected to continue to be, affected by the growth in the Chinese economy and the Internet and telecommunications industries. Although the Chinese economy has experienced significant growth in the past decade, there can be no assurance that growth of the Chinese economy will continue at current rates, or at all. The overall Chinese economy affects our revenues, since expenditures for Internet and telecommunication value-added services are likely to decrease in a slowing economy.

Our subsidiaries in the PRC are subject to restrictions on paying dividends to us.

The Company is a holding company with no operating assets other than the shares of Tencent Technology and Shidai Zhaoyang Technology, our wholly owned subsidiaries in the PRC. The Company relies on dividends and other distributions from our subsidiaries in the PRC. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated distributable profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, WFOEs are required to set aside at least 10% (up to an aggregate amount equal to half of their registered capital) of their respective accumulated profits each year, if any, to fund statutory reserve funds. These reserves are not distributable as cash dividends. Similarly, Tencent Computer and Shiji Kaixuan are required to set aside at least 15% of their respective profits to fund legally-prescribed funds.

Currency fluctuations may adversely affect our business. If the Renminbi were to decline in value, our revenues in US dollar terms would decline.

We generate revenues in Renminbi. However, a small portion of our obligations are denominated in foreign currencies and some of our bank deposits are denominated in US Dollars. As a result, we are subject to the effects of exchange rate fluctuations with respect to any of these currencies. Since 1994, the official exchange rate for the conversion of the Renminbi to US dollars has generally been stable and the Renminbi has appreciated slightly against the US dollar. However, we can offer no assurance that the Renminbi will continue to remain stable against the US dollar or any other foreign currency. Our results of operations and financial condition may be affected by changes in the value of the Renminbi and other currencies in which our obligations are denominated. In addition, with the development of our business, our exposure to foreign currency risks may increase. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

We receive substantially all our revenues in Renminbi, and these funds must be converted into foreign currencies before the Company can be paid its dividends or service fees. Currently, Renminbi is convertible without approvals from SAFE only with respect to current account transactions, but not with respect to capital account transactions. Dividend payments and payments for goods and services are current account transactions. Under current regulations, PRC companies may convert Renminbi into foreign currency for current account transactions directly at commercial banks authorized to deal with foreign exchange transactions if such transactions are lawful and appropriately documented. To date, the WFOEs, Tencent Computer and Shiji Kaixuan have been able to convert Renminbi amounts in their accounts and remit them out of the PRC (for current account transactions) without the need to obtain such approvals from SAFE. However, uncertainty exists as to whether the PRC government will in the future restrict free access to foreign currency for current account transactions if there is a scarcity of foreign currency or otherwise, or if SAFE approvals for such conversions and remittance will be required in the future. Such restrictions, if imposed, would have a material and adverse effect on our ability to receive payments from the WFOEs, Tencent Computer and Shiji Kaixuan.

Uncertainties with respect to the PRC legal system and administrative actions could adversely affect us.

Our operations are generally subject to laws and regulations of the PRC. Moreover, our contractual arrangements with Tencent Computer and Shiji Kaixuan are subject to laws and regulations applicable to foreign investment in the PRC and, in particular, laws applicable to wholly foreign-owned enterprises. In addition, the Company and the WFOEs depend on Tencent Computer and Shiji Kaixuan to honor their service and license agreements with us. Almost all of these agreements are governed by PRC law and any court judgments or arbitral awards arising out of these agreements would have to be enforced in the PRC. While PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments, these laws and regulations are relatively new. In addition, the legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit remedies available to us. Furthermore, the regulatory system is still developing and as a result, regulatory interpretations may be different from case to case and from time to time. Depending on the government agency or how an application or case is presented to an agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

Risks related to Severe Acute Respiratory Syndrome and other outbreaks.

Our business could be adversely affected by the effects of Severe Acute Respiratory Syndrome (or SARS) or another epidemic or outbreak on the economic and business climate. Restrictions on travel resulting from a reoccurrence of SARS or another epidemic or outbreak could adversely affect our ability to market and service new and existing customers throughout China. Our business operations could be disrupted if one of our employees is suspected of having SARS, which could require that certain of our employees be quarantined and/or our offices be disinfected. In addition, our results of operations could be adversely affected to the extent that SARS or another outbreak harms the Chinese economy generally.

RISKS RELATED TO THE OFFERING

Because there has been no prior public market for the Shares, the liquidity and market price of the Offer Shares may be volatile.

Prior to the Offering, there was no public market for the Shares. The initial offer price range to the public for the Offer Shares was the result of negotiations among the Company and the Global Coordinator on behalf of the Underwriters and the Offer Price may differ significantly from the market price for the Shares following commencement of trading in the Shares. We have applied for the listing of, and permission to deal in, the Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active trading market for the Shares will develop, or if it does develop, will be sustained following the Offering, or that the market price of the Shares will not decline following the Offering.

The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and announcements of new investments or new acquisitions could cause the market price of our shares to change substantially.

As the Offer Price is substantially higher than the net tangible book value per Share, you will incur immediate and substantial dilution.

Based on the indicative offer price range, the Offer Price is expected to be substantially higher than the net tangible book value per Share prior to the Offering. Accordingly, purchasers of Offer Shares in the Offering at the Offer Price will experience an immediate and substantial dilution in value per Share if viewed by reference to the net tangible book value per Share.

Sales, or perceived sales, of substantial amounts of Shares in the public market after the Offering could adversely affect the prevailing market price of our Shares.

Immediately after completion of the Offering, the Company will have 1,680,641,260 Shares outstanding, of which 420,160,500 Shares, or approximately 25% (assuming the Over-allotment Option is not exercised), will be held by investors who subscribe for or purchase Shares in the Offering and 1,260,480,760 Shares, or approximately 75% (assuming the Over-allotment Option is not exercised), will be held by the current Shareholders. Offer Shares sold in the Offering and Shares held by certain of the existing Shareholders will be eligible for immediate resale in the public market in Hong Kong without restriction and Shares that are held by other existing Shareholders may also be sold in the public market in the future pursuant to, and subject to the restrictions of, the Listing Rules, the securities laws of certain jurisdictions and lock-up restrictions on certain of our Shareholders. If any of our substantial Shareholders sells, or if any of them is perceived to sell, a large amount of its Shares, the prevailing market price for our Shares could be adversely affected. For detailed information about the lock-up arrangements, see the section of this Prospectus entitled “Underwriting”.

Facts and statistics in this Prospectus relating to the Chinese economy and the Internet and telecommunications industries in China may be inaccurate.

Facts and statistics in this Prospectus in the sections entitled “Summary—Industry Overview”, “Industry Overview” and “Business”, relating to the Chinese economy and Internet and telecommunications industries and related industry sectors in China are derived from various government sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us. Due to possibly flawed or ineffective collection methods and other problems, the statistics in this Prospectus relating to the Chinese economy and the Internet and telecommunications industries and related industry sectors in China may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other countries.

Forward-looking statements contained in this Prospectus are subject to risks and uncertainties.

This Prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “expect”, “estimate”, “may”, “ought to”, “should” or “will”. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Purchasers of our Shares are cautioned that reliance on any forward- looking statement involves risk and uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this Prospectus should not be regarded as representations by us that our plans and objectives will be achieved.