

OVERVIEW

The operation of telecommunications businesses in China, including our Internet related instant messaging, Internet content provision, online entertainment, online advertising businesses and other telecommunications value-added services, are subject to extensive regulation by the government. Under the leadership of the State Council of the PRC, MII is the primary regulator of telecommunications businesses in the PRC, including Internet businesses, with other government authorities also participating in regulating foreign investment, advertising, pricing, intellectual property, security, encryption and various types of content.

In the opinion of our PRC counsel, our Group entities in the PRC have obtained and maintained all necessary approvals in relation to their establishment, and the conduct of their businesses and operations does not violate any relevant laws and regulations, subject to certain issues discussed in the sections entitled “Risk Factors—Regulatory Risks Related to Providing our Services and Products” and—“Applications by Tencent Computer”. Our PRC counsel is also of the opinion that no licenses, permits, approvals or other consents, other than those we have already obtained and the Internet Publishing Approval and the Imported Games Approval that Tencent Computer is in the process of obtaining, are required under existing PRC laws, rules and regulations to conduct our primary business activities.

REGULATIONS RELATING TO OUR BUSINESS

Regulation of Telecommunications

Internet information services in China are governed by the Telecommunications Regulations (電信條例) issued on September 25, 2000 by the State Council. The Telecommunications Regulations categorize all telecommunications businesses in China as either basic telecommunications businesses or value-added telecommunications businesses. The Catalog of Classes of Telecommunications Businesses (電信業務分類目錄) (updated on February 21, 2003 and effective as of April 1, 2003) that is attached to the Telecommunications Regulations provides that an Internet information service is a value-added telecommunications business. According to the Telecommunications Regulations, any commercial operator of telecommunications businesses in China must obtain an operating license from MII or provincial-level communications administrative bureaus (“CAB”). The Telecommunications Regulations also set forth extensive guidelines with respect to various aspects of telecommunications operations in China.

The Administrative Measures for Telecommunications Business Operating Licenses (電信業務經營許可證管理辦法) (the “Telecom License Measures”) were promulgated by MII on December 26, 2001 and became effective as of January 1, 2002. The Telecom License Measures, which are formulated in accordance with the Telecommunications Regulations, set forth the types of licenses required to operate a telecommunications business and the procedures for obtaining such permits. With respect to licenses for value-added services, the Telecom License Measures draw a distinction between licenses for business conducted in a single province (which are issued by CAB) and licenses for inter-provincial activities (which are issued by MII).

Regulation of Instant Messaging and Short Messaging Services

Our IM related software is regulated by PRC regulations, which require such software to be registered. However, there are no specific provisions in PRC law that regulate IM software related services. Instead, we understand that IM services can be provided by ICPs without separate approvals. See “— Regulation of Software Development Activities”.

Guangdong Provincial Communications Administration (廣東省通信管理局) (“GCA”) issued regulations in April 2003 on a trial basis governing the provision of SMS by ICPs registered in Guangdong province, PRC, such as Tencent Computer and Shiji Kaixuan. ICPs established in Guangdong province, PRC must obtain approval from GCA to provide SMS. The SMS providers are also required to monitor the content of SMS, maintain a record of each SMS for 60 days and to make them available to the applicable government authorities. On April 15, 2004, the MII issued the Notice on Certain Issues Regarding Standardizing Short Messaging Service (the “SMS Notice”) (關於規範短信息服務有關問題的通知). Pursuant to the SMS Notice, only duly approved ICPs are permitted to engage in SMS services. The SMS Notice provides that operators are required to prominently advise users of the charge standards, collection methods and procedure for subscription cancellation. In addition, operators shall provide SMS strictly in accordance with users’ requirements. SMS providers must examine the content of SMS to ensure that it is in compliance with law. The service systems of the mobile operator and the SMS provider must automatically record and keep for a period of five months the time of transmission and receipt, the telephone numbers or codes of the sending and receiving terminal devices.

Regulation of Internet Information Service Providers

In addition to the Telecommunications Regulations, Internet information services are also regulated pursuant to the Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) (the “Internet Measures”) issued on September 25, 2000 by the State Council. The Internet Measures define “Internet Information Services” as “the service activities which provide information to online users through the Internet”, and are divided into services of a commercial nature and services of a non-commercial nature. “Internet Information Service Providers” (which are commonly referred to as ICPs) that are compensated for their services (i.e., ICPs providing services of a commercial nature) are required to obtain an operating license from MII or the relevant CAB. We understand that “without compensation” is interpreted by MII to refer to the provision of public and shared information to users through the Internet free of charge, which applies only to not for profit government or charitable organizations or the websites used by entities to promote their own services or products.

Regulation of Internet Content

The Internet Measures set forth a list of prohibited types of content. Duly licensed ICPs are required to monitor their websites, including chat rooms and electronic bulletin boards, for prohibited content and remove any such content that they discover on their websites. In addition, some of the specific types of prohibited content are vague and subject to interpretation. Therefore, the responsibilities and the potential liabilities of ICPs are unclear.

ICPs are subject to an array of other regulations with respect to types of content and services, for which providers must obtain approval from various government agencies. ICPs in the more sensitive or regulated areas (that is, news, publication, education, medical care, pharmaceuticals and medical apparatuses and instruments) are required to be examined by the authority in charge of the relevant area prior to applying for an operating permit.

The posting of news on websites and the distribution of news over the Internet are highly regulated and can only be engaged in by ICPs that have been specifically approved to do so. The Provisional Administrative Measures Regarding Internet Websites Carrying on the News Posting Business (互聯網站從事登載新聞業務管理暫行規定) issued by the State Council News Office (國務院新聞辦公室) and MII in November 2000 stipulate that only ICPs that are government-authorized news units may operate online news posting businesses that post news reported by such ICPs. Other ICPs may apply to the State Council News Office for approval to post on their websites news supplied under contract by approved news providers, a copy of which shall be filed with the applicable provincial information offices where such other ICPs are located. These regulations also stipulate specific requirements with respect to facilities and experienced personnel that must be met by applicants for approval to post news on their websites.

Regulation of Electronic Bulletin Boards and Chat Rooms

MIl also promulgated the Internet Electronic Messaging Service Administrative Measures (互聯網電子公告服務管理規定) (the “BBS Measures”) in November 2000 to monitor ICPs that provide electronic messaging services, which term is defined to include, without limitation, electronic bulletin boards, electronic forums, message boards and chat rooms. To operate such services, ICPs are required to obtain specific approval. The regulations provide that operators of electronic messaging services must record the content posted on such services, time of distribution of the information and the Internet addresses or domain names involved. The information recorded must be kept for a period of 60 days and made available to the authorities upon request. Similar retention requirements apply to Internet publications.

Regulation of Internet Publishing

In June 2002, SPPA and MII issued the Interim Provisions on Internet Publishing (the “Internet Publishing Regulations”) (互聯網出版管理暫行規定). The Internet Publishing Regulations require that SPPA approve all entities engaging in Internet publishing. Internet publishing is broadly defined in the Internet Publishing Regulations as an act of online dissemination whereby ICPs select, edit and process works (including content from books, newspapers, periodicals, audio and video products, electronic publications, etc. that have already been formally published or works that have been made public in other media) created by themselves or others and subsequently post such works on the Internet or transmit them to users via the Internet for browsing, reading, use or downloading by the public. The Internet Publishing Regulations include a requirement for Internet publishing organizations to have professional editorial personnel examine the content being published to ensure that it complies with law.

Regulation of Online Advertisements

ICPs require approval from SAIC or its relevant local branches to carry advertisements on their websites. Neither Tencent Computer nor Shiji Kaixuan has such a separate approval, but Tencent Computer has “online advertising” listed as a service item on the value-added telecommunications business operating permit issued by the CAB of Guangdong province, and the services covered by this permit are referred to in the business scope of Tencent Computer’s business license issued by the local branch of SAIC.

Regulation of Online Cultural Activities

The MOC promulgated the Internet Culture Provisions in May 2003. The Internet Culture Provisions apply to all ICPs that carry out Internet Cultural Activities which involve the production and dissemination of cultural products via the Internet. “Internet Cultural Activities” is defined in the Internet Culture Provisions as an act of provision of Internet Cultural Products and related services, which includes (i) production, duplication, importation, wholesale, retail, lease and broadcasting of the Internet Cultural Products; (ii) online dissemination whereby cultural products are posted on the Internet or transmitted via Internet to client ends, such as computers, fixed line telephones, mobiles, radios, television sets, games machines, for online users’ browsing, reading, appreciation, use or downloading; and (iii) exhibition and competition of the Internet Cultural Products. In addition, “Internet Cultural Products” is defined in the Internet Culture Provisions as cultural products produced, broadcasted and disseminated via Internet, which include audio-video products, games products, performance programs, work of arts, cartoons and other cultural products. All entities engaging in commercial Internet Cultural Activities (“Internet Cultural Entities”) must be approved by the MOC in addition to the approval of MII. The Internet Culture Provisions state that applicants must also comply with the quantitative, structural and administrative plans for Internet Cultural Entities. Tencent Computer has received approval from the MOC to provide Internet Cultural Activities.

Internet Cultural Entities must further apply to the MOC for approval to operate imported online games. MOC reviews the content of such games prior to granting such approval. On May 14, 2004, the MOC issued a notice setting out the relevant requirements under the Internet Culture Provisions. Internet Cultural Entities are required to first review the content of imported games themselves, and then apply to the MOC for review of their content. The MOC notice provides that, before September 1, 2004, Internet Cultural Entities are required (i) to submit their applications for approval by the MOC of any imported games operated before May 14, 2004 and (ii) to file with the MOC for the record any games developed and operated in the PRC before May 14, 2004. The MOC notice further provides that license contracts for imported games must be exclusive, comply with the PRC’s Contract Law and Copyright Law and must not contain clearly unfair provisions and that any material changes to the content of an imported game are subject to further MOC approval. Having recently received the approval to engage in Internet Cultural Activities, Tencent Computer has applied to the MOC for approval to operate “Sephiroth”, the imported MMOG that Tencent Computer started to operate commercially in December 2003, and intends to apply for approval to operate other online games in accordance with the MOC notice. With

respect to games that Tencent Computer has previously imported and operated, Tencent Computer intends to submit such applications in accordance with the MOC notice. See “Risk Factors — Regulatory Risks Related to Providing Our Services and Products”.

Regulation of Online Gaming Activities

PRC law prohibits the conduct of gambling activities with the exception of a small number of authorized lotteries. Gambling activities conducted over the Internet fall under this prohibition, although there is no legal definition of “online gambling activities” and no specific regulation has been promulgated in relation to such activities, and none of Tencent Computer’s or Shiji Kaixuan’s online businesses has been the object of any legal or administrative action in this respect. In addition, Tencent Computer has terminated or adjusted games of a type about which it had been publicly discussed whether they should be considered “online gambling”. Therefore, our PRC counsel is not aware of any reason that would lead it to reasonably believe that Tencent Computer has any material exposure to risks from the relevant regulatory and licensing requirements in the PRC.

Regulation of Software Development Activities

The Administrative Measures on Software Products (軟件產品管理辦法) promulgated by MII on October 27, 2000 (the “Software Measures”) regulate development and sale of computer software or software embedded in information systems or equipment provided to users and computer software in conjunction with computer information systems integration or application services or other technical services (“software products”) in China. The Software Measures prohibit the development, production, sale or import of software products that infringe third party intellectual property rights, contain computer viruses, endanger the safety of computer systems, contain content prohibited by the State or do not comply with PRC software standards.

All software products to be sold or operated in China must be tested by an MII-approved testing organization and registered with MII or a provincial-level office of MII pursuant to the Software Measures. The registration is valid for a five year period and can be renewed.

The Software Measures require software products manufacturers to have a business scope that includes software business, have the conditions and technical strength for software manufacturing, a fixed manufacturing base and the procedures and capability to guarantee product quality.

REGULATIONS RELATING TO FOREIGN INVESTMENT

Upon China’s accession to the WTO on December 11, 2001, and due to commitments made by China in connection with its accession, limited foreign investment in value-added telecommunications businesses listed in China’s WTO accession documents is permitted. Foreign investment is governed by the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the “FITE Provisions”) issued on December 11, 2001 by the State Council with effect from January 1, 2002 and restrictions that comply with the commitments made are set forth in the Foreign Investment Industrial

Guidance Catalogue (外商投資產業指導目錄) (the “Guidance Catalogue”) issued on March 11, 2002 and effective as of April 1, 2002 by the former State Development Planning Commission (now the State Development and Reform Commission), the former State Economic and Trade Commission and the former MOFTEC, which have now been subsumed into the newly established MOFCOM. Foreign investors may own up to a 50% equity interest in a company that operates one of the value-added telecommunications businesses listed in China’s WTO commitments. Such investments must be approved by MII and MOFCOM or its local counterpart.

Foreign investment in the computer industry is permitted. The Guidance Catalogue does not limit foreign ownership in the businesses of hardware and software development and computer technology and information services listed in the WFOEs’ business scope. Likewise, China’s commitments upon its accession to WTO do not allow any foreign ownership restriction on computer and related services (other than software implementation services, for which China may prohibit wholly foreign-owned subsidiaries).

REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

China has adopted comprehensive legislation governing intellectual property rights, including trademarks, patents and copyrights. China has adhered to the main international conventions on intellectual property rights and has become a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to WTO in December 2001.

China amended its Copyright Law in 2001 to widen the scope of works that are eligible for copyright protection. The amended Copyright Law extends copyright protection to cover Internet activities and products disseminated over the Internet. Copyright in software is protected under the Copyright Law. In addition, there is a voluntary registration system administered by the China Copyright Protection Center (中國版權保護中心).

Registered trademarks are protected under the Trademark Law (商標法) adopted in 1982 and revised in 2001. Trademarks can be registered with the Trademark Office (商標局) for renewable ten year periods. Trademark license agreements are required to be filed with the Trademark Office for the record.

The registration of domain names with the second tier domain name “.cn” is governed by the Measures on the Administration of Domain Names for the Chinese Internet (中國互聯網絡域名管理辦法) promulgated by MII on August 1, 2002 and the Implementing Rules for Domain Name Registration (中國互聯網絡信息中心域名註冊實施細則) promulgated by China’s domain name registrar, CNNIC in 2002. CNNIC administers “.cn” domain names in English and Chinese. Domain name disputes are governed by the Measures on Domain Name Dispute Resolution (中國互聯網絡信息中心域名爭議解決辦法) promulgated by CNNIC on September 25, 2002, under which CNNIC can authorize domain name dispute resolution institutions to decide disputes.

REGULATIONS RELATING TO INTERNET PRIVACY

The Constitution of China provides that Chinese law protects the freedom and privacy of communications of citizens and that infringement of such rights is not permitted. In recent

years, the relevant government authorities have enacted legislation on the use of the Internet that recognizes the protection of personal information from unauthorized disclosure. Pursuant to the BBS Measures, ICPs that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the consent of the users, unless the law requires such disclosure. The regulations further authorize the relevant telecommunications authorities to order ICPs to rectify an unauthorized disclosure. Finally, the regulations provide that ICPs could be subject to legal liability if the unauthorized disclosure causes damages or losses to the users. However, the Chinese government retains the power and authority to order ICPs to turn over personal information of Internet users if the users post any prohibited content or engage in illegal activities on the Internet.

REGULATIONS RELATING TO FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

Pursuant to the Foreign Exchange Administration Regulations promulgated in 1996 and various further regulations issued by the relevant PRC government authority, the State Administration of Foreign Exchange (中國國家外匯管理局) ("SAFE"), the Renminbi can be freely converted into foreign currency and remitted out of China through a designated foreign exchange bank for current account transactions, such as payment for purchase of goods and services. However, evidence in the form of contracts, invoices and in some cases government registration certificates, must be presented to the bank. For capital account transactions, such as equity investments and loans, conversion of foreign currency into Renminbi or Renminbi into foreign currency and remittance thereof into or out of China require SAFE approval.

Within China, all payments must be made in Renminbi. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad into China. Foreign-invested enterprises, such as our subsidiaries, are allowed to retain foreign currency in accounts with designated foreign exchange banks, subject to a maximum amount set by SAFE. Unless otherwise approved, domestic enterprises, such as Tencent Computer and Shiji Kaixuan, are required to convert all their foreign currency receipts into Renminbi.

Foreign-invested enterprises are permitted to distribute dividends to their foreign shareholders in foreign currencies. Such dividend distribution is considered a current account transaction that does not require SAFE approval.

OTHER REGULATIONS

Regulations Relating to Technology and Software Imports

The Technology Import and Export Administrative Regulations of the PRC (中華人民共和國技術進出口管理條例) promulgated by the State Council on December 10, 2001, with effect from January 1, 2002, require approval of imports and exports of restricted technology, and registration of contracts to import or export unrestricted technology. Software is part of the technology governed by this regime. To implement this requirement, the Administrative Measures for Registration of Technology Import and Export Contracts (技術進出口合同登記管理辦法) (the "Registration Measures"), the Administrative Measures on Prohibited and Restricted Technology Exports (禁止出口限制出口技術管理辦法) (the "Technology Export Measures"), the Administrative Measures on Prohibited and Restricted Technology

Imports (禁止進口限制進口技術管理辦法) (the “Technology Import Measures”) were promulgated by the former MOFTEC (now subsumed into MOFCOM) or by MOFTEC jointly with other governmental authorities on December 30, 2001, with effect from January 1, 2002. MOFCOM is the principal approval authority for restricted technology trade, as well as the registration authority for permitted technology trade, but the Regulations also provide that MOFTEC may delegate its approval and registration authority to its provincial-level counterparts. The operation and sales (distribution) of imported software in China are also governed by the Administrative Measures on Software Products.

Regulation of Encryption Technology

According to the Regulations for the Administration of Commercial Encryption (商用密碼管理條例) issued by the PRC State Council in October 1999, as a general rule, any commercial encryption products must be developed, manufactured and distributed by the entities designated by the State Encryption Management Commission (國家密碼管理委員會) (“SEMC”). PRC entities (including foreign-invested enterprises) can neither import any commercial encryption product or equipment containing encryption technology without approval from SEMC, nor use any commercial encryption product that is not certified by SEMC. According to a public clarification by the Office of SEMC in March 2000 that “commercial encryption products and equipment containing encryption technology” are limited to designated hardware and software, the core function of which is encryption or decryption, and should not include mobile phones, Windows software, browser software, and other consumer software.

APPLICATIONS BY TENCENT COMPUTER

Imported Games Approval

Pursuant to the Internet Culture Provisions, an approval from the MOC is required to import and to operate online games imported before or after the date on which the Internet Culture Provisions became effective. Tencent Computer has applied to the MOC for such approval with respect to the imported online games, but has not yet obtained it. However, Tencent Computer has already imported online games and has been engaged in the operation of imported online games without having obtained the MOC approval. If the MOC does not grant the Imported Games Approval with respect to any such game, Tencent Computer will have to cease operating such game.

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, the following consequences may occur:

- Tencent Computer may be requested by the relevant cultural authorities to stop the operation of the relevant imported online game for which an Imported Games Approval has not been obtained;
- if Tencent Computer has not generated any revenues from such operation, it may be subject to a fine up to RMB 10,000;
- if Tencent Computer has generated revenues from such operation, it may be subject to confiscation of such revenues and a fine of one to three times of such revenues with a cap of RMB 30,000; and

- if the violation is deemed by the relevant cultural authorities as serious, Tencent Computer may be restricted from engaging in the Internet Cultural Activities and its Internet Cultural Operating Permit may be revoked.

The Company launched its imported online games in 2003 and the revenue and gross loss generated from such business in 2003 were RMB0.9 million (representing approximately 0.1% of the total revenues of the Group in 2003) and RMB2.6 million, respectively. In the event that Tencent Computer cannot carry on this business without securing the approval from the cultural authorities, the financial impact on the total 2004 forecast revenue is expected to be less than 3%, which is believed by management to be insignificant to the business operations of the Group.

So far, the MOC has not taken any legal or administrative proceeding against Tencent Computer or, according to the inquiries made by our PRC counsel, any other Internet cultural company that has engaged in or is engaging in businesses similar to those being conducted by Tencent Computer without having obtained or obtaining the MOC approval. We have been advised by our PRC counsel that, on the basis of the above, the Group will not be restricted from engaging in the Internet Cultural Activities and have its Internet Cultural Operating Permit revoked as a result of the lack of such Imported Games Approval.

Internet Publishing Approval

Tencent Computer has applied for an Internet Publishing Approval pursuant to the Internet Publishing Regulations, but has not obtained it as of the date hereof. The application was submitted on October 8, 2002, after the September 30, 2002 time limit set by the Internet Publishing Regulations for applications made by entities that had already engaged in Internet publishing at the time the Internet Publishing Regulations became effective. In accordance with the Internet Publishing Regulations, the application for the Internet Publishing Approval must be submitted to the local office of the SPPA for preliminary examination, and then the local office will forward the application to the SPPA at the central government level for final approval. The application submitted by Tencent Computer on October 8, 2002 was to the Shenzhen Municipality office of the SPPA.

Tencent Computer understands that the SPPA issued the first Internet Publishing Approvals in October 2003. In order to accelerate the process for obtaining the Internet Publishing Approval, Tencent Computer resubmitted the relevant documentation in April 2004. Tencent Computer understands that this application has been forwarded to the central government office of the SPPA for approval in accordance with the Internet Publishing Regulations.

According to the inquiries made by our PRC counsel, the SPPA does not intend to reject applications for Internet Publishing Approvals simply because of such delay. We believe that Tencent Computer has met all substantive requirements under the Internet Publishing Regulations with respect to the issuance of an Internet Publishing Approval, and except as noted in this paragraph, the Company is not aware of any reason for which the SPPA would refuse Tencent Computer's application. If the SPPA's review of Tencent Computer's application continues as is currently the case, Tencent Computer expects to obtain the Internet Publishing Approval within the next two months. Our PRC counsel has

advised us that, except as noted in this paragraph, it is not aware of any reason that will lead it to believe that the Internet Publishing Approval will not be issued to Tencent Computer.

The Internet Publishing Approval is an approval relating to certain limited publishing activities of an ICP permit holder such as Tencent Computer. The definition of “Internet Publishing”, whilst broadly worded, would only apply to certain parts of the business operations of Tencent Computer (which are discreet and separate from the other business operations of Tencent Computer) and would not apply to its Internet activities or the website generally. As such, the only reason for Tencent Computer to apply for an Internet Publishing Approval is because of its operations of website games and its posting and dissemination of a limited portion of content on the QQ portal and QQ client terminal devices, in particular on the BBS and QQ community sections, which are works selected, edited and processed by Tencent Computer (the “Works-Related Activities”). It is unclear from the Internet Publishing Regulations whether the Works-Related Activities are deemed to be Internet Publishing for which an Internet Publishing Approval is required under the Internet Publishing Regulations. Other than the Internet Publishing Approval Tencent Computer has obtained all necessary and required approvals from the MII and the State News Office to engage in the Works-Related Activities.

If Tencent Computer is deemed to operate an Internet Publishing business without an Internet Publishing Approval, the following consequences may occur:

- it may be requested by the relevant publishing authorities to terminate such operation;
- its main equipment and specialized tools used primarily for such operation and its revenues generated from such operation may be seized;
- if the total revenues generated from such operation are RMB10,000 or more, it may be subject to a fine of 5 to 10 times of such revenues; and
- if the total revenues generated from such operation are fewer than RMB10,000, it may be subject to a fine of RMB10,000 to RMB 50,000.

No revenue has been generated from the Works-Related Activities during the track record period. Accordingly, even if the Works-Related Activities are deemed to be Internet Publishing by the SPPA under the Internet Publishing Regulations, the SPPA would only require Tencent Computer to terminate the Works-Related Activities, and, in addition, possibly seize the main equipment and specialized tools used primarily for the Works-Related Activities (which would not include those used in the other business operations of Tencent Computer) and impose a fine of not less than RMB10,000 and up to a maximum amount of RMB50,000. Such penalty would not lead to the closure of the other business operations conducted by Tencent Computer.

Tencent Computer has obtained the necessary approvals from the MOC and the MII to operate website games. However, there is a possibility that such operation may be deemed by the SPPA to fall within the definition of “Internet Publishing”. Tencent Computer’s operation of website games was launched in 2003, and the revenue and gross loss generated from such business in 2003 were RMB 0.9 million (representing approximately 0.1% of the total revenues of the Group) and RMB 2.6 million, respectively. In the event the Internet Publishing

Approval is not obtained by Tencent Computer (which we have no reason to believe such will be the case), and the operation of website games is deemed by the SPPA to require an Internet Publishing Approval, then the SPPA could require Tencent Computer to terminate such operation, seize the main equipment and specialized tools used primarily for and revenues generated from such operation (which would not include those used in the other business operations of Tencent Computer), and impose a fine of not less than 5 times the amount of such revenue, the maximum amount of such fine not to exceed 10 times the amount of such revenue. Such penalty would not lead to the closure of the other business operations conducted by Tencent Computer.

The SPPA has not taken any legal or administrative proceeding against Tencent Computer or, according to the inquiries of our PRC counsel, any other Internet publishing entity that has engaged in or is engaging in businesses similar to those being conducted by Tencent Computer without having obtained or obtaining the Internet Publishing Approval. On the basis of the above, our PRC counsel considers that the lack of an Internet Publishing Approval will not have any adverse impact on the business operations of the Group.