

CHAIRMAN'S STATEMENT



Ma Huateng
Chairman

The year of 2004 marked one of the milestones for the Group. On 16 June 2004, the Company was listed on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) and total gross proceeds of RMB1,905.2 million were received. I am pleased to present our first annual report for the year ended 31 December 2004 to the shareholders as a publicly listed company.

OPERATING RESULTS

We achieved impressive growth across all of our business segments in 2004. Total revenues for the year 2004 increased by 55.6% to RMB1,143.5 million compared with the same period last year. The revenues from Internet value-added services (“IVAS”) increased by 91.1% to RMB439.0 million and revenues from mobile & telecommunications value-added services (“MVAS”) grew 37.2% to RMB641.2 million and revenues from online advertising increased by 66.9% to RMB54.8 million.

The Group’s audited net profit for the year ended 31 December 2004 was RMB446.7 million, an increase of 38.6% compared with the results for the year ended 31 December 2003. Basic and diluted earnings per share for the year ended 31 December 2004 were RMB0.293 and RMB0.287, respectively.

BUSINESS REVIEW

The year of 2004 was both a challenging and a rewarding year for the Group. During the year, growth in our MVAS business lessened as mobile operators implemented various measures to regulate the MVAS industry. In addition, competition in the market intensified as a number of industry peers saw the power of our instant messaging (“IM”) platform and stepped up their efforts in developing competing IM services. In the face of these challenges, we have focused on strengthening our IM platform through improving its functionalities and performance, and introducing innovative value-added services to enhance our user experience. We have continued to build our QQ.com portal and our QQ Game Portal as additional platforms to deliver value-added services to our users. We have also worked hard to ensure that high quality MVAS services are delivered to our users during the transitional periods. As a result of our efforts, we have registered significant growth in our various online platforms, allowing us to consolidate our position of being a leading provider of Internet and mobile value-added services in China.

In 2004, our QQ IM platform continued to register strong growth. By the end of 2004, our IM platform had approximately 135 million active registered user accounts, a growth of 65% over 2003. The peak simultaneous online user accounts recorded for our IM services was approximately 9.4 million, a growth of 90% over 2003.

Leveraging the strength of our IM platform, we have grown our IVAS business significantly. IVAS paying subscriptions were 8.3 million as of the end of 2004, increasing 20% over 2003. Our avatar service was a key growth driver for our IVAS business, in particular. Through avatar, our users can personalise their presence in our IM community, enriching the online experience for themselves and other people who interact with them. The success of our avatar service clearly demonstrated the strong community effect of our IM platform, which can be leveraged in the promotion of other new services to our users in the future.

We have also expanded our online gaming offerings significantly in 2004. QQ Game Portal recorded over one million peak concurrent users in the fourth quarter of 2004, and has become the leading casual game portal in China. In late December, we soft-launched our first advanced casual game, QQ Tang, for open beta testing and have received favorable responses from our users. We have also devoted resources to the development of QQ Fantasy, our first self-developed Massive Multi-player Online Game (“MMOG”), which we expect to introduce in the third quarter of 2005.

To strengthen our QQ.com portal, we expanded our editorial staff significantly and increased both the depth and breadth of the content offered in QQ.com. As a result of these efforts, QQ.com has registered strong growth in its traffic in the year of 2004. According to Alexa.com, QQ.com was the fourth most popular portal in China and the 13th most popular website in the world as of the end of 2004.

The significant traffic growth in our IM platform and QQ.com has benefited our online advertising business. Although the contribution of advertising revenue from QQ.com was still relatively small as of the end of 2004, we believe QQ.com has the potential to become an important advertising platform for us and we will focus on cultivating this potential in the future.



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In 2004, growth in our MVAS business slowed down as we adjusted to measures introduced by mobile operators to regulate the MVAS industry as a whole. During the fourth quarter of 2004, due to the “clean-up” of inactive accounts related to MISC integration, MVAS business of the Company declined compared to the previous quarter. In addition, our 161 Mobile Chat fee-sharing arrangement with China Mobile expired in the fourth quarter, which will start to negatively impact our revenues in the first quarter of 2005. Despite all these challenges, we believe the measures introduced by the mobile operators are beneficial to the healthy growth of the MVAS industry in the foreseeable future. We will continue to work closely with the mobile operators to further strengthen and develop our MVAS business.

DIVIDEND

The board of directors (“the Board”) has recommended the payment of a final dividend of HKD0.07 per share (2003: RMB0.023) for the year ended 31 December 2004, subject to the approval of the shareholders in the Annual General Meeting to be held on 27 April 2005. The proposed dividend is expected to be payable on 17 May 2005 to shareholders whose names appear on the register of members of the Company on 27 April 2005.

BUSINESS OUTLOOK

We believe the IVAS and MVAS markets in China offer exciting long-term opportunities for us. During 2004, the number of Internet and mobile users in China continued to grow. Despite the large user base, we believe the market is still at a nascent stage of development from a revenue generation perspective, and accordingly, the market is susceptible to short-term volatilities and uncertainties. For example, the mobile value-added services segment in China has seen a number of changes in 2004 that caused a negative impact to value-added service providers in general. However, we believe that as Chinese consumers become more affluent and more experienced in the Internet, and as new technology, applications and services are introduced, the strong secular growth trend in the IVAS and MVAS markets will be intact over the long term. We are committed to making investments in research and development, contents, servers and bandwidth as well as marketing to strengthen our leading position and prepare ourselves for the significant opportunities ahead of us.

APPRECIATION

The dedication of the management and staff of the Group is an important ingredient necessary to meet the challenges and opportunities ahead. We would like to take this opportunity to record our cordial thanks to them all.

Ma Huateng

Chairman

Hong Kong, 17 March 2005