

NETEASE.COM, INC.  
Form 6-K  
May 22, 2008  
[Table of Contents](#)

## **FORM 6-K**

### **SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

**REPORT OF FOREIGN ISSUER**

**PURSUANT TO RULE 13a-16 OR 15d-16 OF THE**

**SECURITIES EXCHANGE ACT OF 1934**

**For the month of May 2008**

**Commission File Number: 000-30666**

## **NETEASE.COM, INC.**

**26/F, SP Tower D**

**Tsinghua Science Park Building 8**

**No. 1 Zhongguancun East Road, Haidian District**

**Beijing 100084, People's Republic of China**

**(Address of principal executive offices)**

Edgar Filing: NETEASE.COM, INC. - Form 6-K

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If ☒ Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- N.A.

The index of exhibits may be found at Page 2

**Table of Contents**

**NETEASE.COM, INC.**

Form 6-K

TABLE OF CONTENTS

Signature

Press Release Regarding Earnings Results for the First Quarter of 2008, dated May 22, 2008

**Page**

Page 3

Exhibit 99.1

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETEASE.COM, INC.

By: /s/ Onward Choi

Name: Onward Choi

Title: Acting Chief Financial Officer

Date: May 22, 2008

**Table of Contents**

**Press Release**

**Contact for Media and Investors:**

Brandi Piacente

Investor Relations

[brandi@corp.netease.com](mailto:brandi@corp.netease.com)

Tel: (+1) 212-481-2050

Li Jia

NetEase.com, Inc.

[liddyli@corp.netease.com](mailto:liddyli@corp.netease.com)

Tel: (+8610) 8255-8208

**NetEase.com Reports First Quarter 2008**

**Unaudited Financial Results**

(Beijing May 22, 2008) NetEase.com, Inc. (NASDAQ: NTES), one of China's leading Internet and online game services providers, today announced its unaudited financial results for the quarter ended March 31, 2008.

William Ding, Chief Executive Officer and Director of NetEase stated, "The key to our success in 2008 and beyond will be our continued ability to evolve as we anticipate the ever-changing dynamics of the Chinese Internet market. We believe that diversification in our product offerings will allow us to achieve our goal. During the first quarter of 2008, we continued to intensify our focus on the development of item- and fee-based games and remain on schedule to start closed beta testing of Tianxia II, which will be our first 3D item-based game."

Mr. Ding continued, "We are pleased with our progress on the current development of Tianxia II and are confident that we are on track to launch the open beta testing of this game early next month. Our free-email service has continued to dominate the Chinese market, as we remain relentless in our efforts to continually provide users with the best experience and technology available. We believe that we have the talent, technology and user base to continue capitalizing on the various opportunities surrounding the strong growth trends of the internet market in China."

**First Quarter 2008 Financial Results**

Total revenues for the first quarter of 2008 were RMB651.9 million (US\$93.0 million), compared to RMB622.1 million (US\$88.7 million) and RMB554.6 million (US\$79.1 million) for the fourth and first quarters of 2007, respectively.

Revenues from online games were RMB555.9 million (US\$79.3 million) for the first quarter of 2008, compared to RMB507.0 million (US\$72.3 million) and RMB481.9 million (US\$68.7 million) for the fourth and first quarters of 2007, respectively.

---

**Table of Contents**

Revenues from advertising services were RMB77.1 million (US\$11.0 million) for the first quarter of 2008, compared to RMB98.1 million (US\$14.0 million) and RMB56.2 million (US\$8.0 million) for the fourth and first quarters of 2007, respectively.

Revenues from wireless value-added services and others ( WVAS and others ) were RMB18.9 million (US\$2.7 million) for the first quarter of 2008, compared to RMB17.0 million (US\$2.4 million) and RMB16.6 million (US\$2.4 million) for the fourth and first quarters of 2007, respectively.

Gross profit for the first quarter of 2008 was RMB532.0 million (US\$75.9 million), compared to RMB488.0 million (US\$69.6 million) and RMB430.1 million (US\$61.3 million) for the fourth and first quarters of 2007, respectively. The quarter-over-quarter increase in gross profit was primarily driven by the continued growth in revenues from Fantasy Westward Journey and the granting of preferential business tax treatment to one of the Company's variable interest entities ( VIEs ) related to revenue generated by online games and wireless services by the relevant local tax authority in the first quarter of 2008. Unless there is a change in the applicable tax rules, the Company expects to continue enjoying such preferential business tax treatment in the foreseeable future. The year-over-year increase in gross profit was mainly due to higher revenues from the online game and advertising businesses in the first quarter of 2008.

Gross margin for the online game business for the first quarter of 2008 was 90.2%, compared to 90.7% and 89.6% for the fourth and first quarters of 2007, respectively. The quarter-over-quarter decrease was primarily due to increases in salary and staff-related costs in the first quarter of 2008 as a result of increased headcount and increases in miscellaneous cost of revenues, partially offset by increased revenue. The year-over-year increase was primarily attributable to higher revenue, partially offset by increased salary and staff-related costs due to increased headcount for the development and enhancement of games during the first quarter of 2008.

Gross margin for the advertising business for the first quarter of 2008 was 45.8%, compared to 52.0% and 35.7% for the fourth and first quarters of 2007, respectively. The quarter-over-quarter decrease in gross margin was primarily due to the typical soft demand for the Company's advertising services during the first quarter each year. The year-over-year increase in gross margin was primarily driven by an increase in brand advertising revenue resulting from the Company's successful creation of new premium ad spaces for advertisers, partially offset by increased staff salary cost as a result of an increase in headcount during the first quarter of 2008.

Gross loss margin for the WVAS and others business for the first quarter of 2008 was 6.2%, compared to 19.5% and 36.1% for the fourth and the first quarters of 2007, respectively. The quarter-over-quarter and the year-over-year improvement in gross margin were mainly due to an increase in revenue during the first quarter of 2008 while the related cost of revenue remained relatively stable. The increase in WVAS and others revenue was primarily driven by the increases in revenues from various fee-based premium services and the savings in business tax as explained above.

Total operating expenses for the first quarter of 2008 were RMB127.6 million (US\$18.2 million), compared to RMB152.8 million (US\$21.8 million) and RMB117.7 million (US\$16.8 million) for the fourth and first quarters of 2007, respectively. The quarter-over-quarter decrease in selling and marketing expenses was primarily due to decreased promotion costs for the online game and advertising businesses during the first quarter of 2008. The quarter-over-quarter decrease in general and administrative expenses was

**Table of Contents**

due to the receipt of a local government rent subsidy of RMB1.0 million (US\$0.1 million) by one of the Company's subsidiaries during the first quarter of 2008. The quarter-over-quarter decrease in research and development expenses was mainly due to lower stock-based compensation cost and other staff-related costs during the first quarter of 2008. The year-over-year decrease in selling and marketing expenses was primarily due to the reduced promotion costs for the online game business during the first quarter of 2008. The year-over-year increase in general and administrative expenses was primarily due to the reversal of provision for bad debts made in the first quarter of 2007, which resulted in a net increase in bad debt expense of RMB7.0 million (US\$1.0 million) in the first quarter of 2008. The year-over-year increase in research and development expenses was mainly attributable to increased staff salary and staff-related costs totaling RMB5.6 million (US\$0.8 million), which resulted from an increase in headcount, and increased depreciation charges of RMB0.8 million (US\$0.1 million) related to newly acquired fixed assets for the Company's search engine and free email services.

Net profit for the first quarter of 2008 totaled RMB269.4 million (US\$38.4 million), compared to RMB389.8 million (US\$55.6 million) and RMB301.5 million (US\$43.0 million) for the fourth and first quarters of 2007, respectively. The quarter-over-quarter and the year-over-year decrease in net profit were primarily due to the increase in tax charges reported for the first quarter of 2008 as explained in the paragraph below. NetEase reported basic and diluted earnings per American depositary share (ADS) of US\$0.32 and US\$0.30 for the first quarter of 2008, respectively. The Company reported basic and diluted earnings per ADS of US\$0.46 and US\$0.43 and US\$0.34 and US\$0.32 for the fourth and first quarters of 2007, respectively.

Effective as of January 1, 2008, the Chinese government adopted a new income tax law which unified the enterprise income tax payable by domestic and foreign-invested enterprises at 25%. Prior to the adoption of the new law, a number of the Company's subsidiaries and VIEs were entitled to various preferential tax treatments. The Chinese tax authorities are currently in the process of establishing a framework to receive and process applications from domestic and foreign-invested enterprises for the qualification of high and new technology enterprise (HNTE) and the granting of the HNTE preferential tax status under the new tax laws. Therefore, the Company is required under applicable accounting standards to report its tax provision at the new statutory income tax rate of 25% except for certain of its subsidiaries which are subject to a tax holiday. The tax charge for the first quarter of 2008 was RMB114.8 million (US\$16.4 million), compared to the tax benefit of RMB52.9 million (US\$7.5 million) and the tax charge of RMB33.6 million (US\$4.8 million) for the fourth and first quarters of 2007, respectively. The Company's tax charge for the first quarter of 2008 was higher than the previous quarter primarily due to the adoption of the new tax law in China as explained above. The Company expected that in future quarters when the Company's subsidiaries and VIEs in China are granted the HNTE preferential tax status, the excessive tax charge will be reversed. The tax benefit reported for the fourth quarter of 2007 was primarily attributable to the reporting of deferred tax assets at the new statutory income tax rate. It is expected that the Company will report a higher tax charge in future quarters as and when the HNTE preferential tax treatments are granted by the Chinese tax authorities, as a result of a reduction to the deferred tax assets to reflect the lower preferred tax rates. For the first quarter of 2007, the Company's net tax expense was reduced as a result of the preferential tax treatments enjoyed prior to the adoption of the new tax laws.

## **Table of Contents**

### **Other Information**

As of March 31, 2008, the Company's total cash and time deposit balance was RMB4.49 billion (US\$639.8 million), compared to RMB4.16 billion (US\$593.1 million) as of December 31, 2007. Cash flow generated from operating activities was approximately RMB495.0 million (US\$70.6 million) for the first quarter of 2008, compared to RMB426.6 million (US\$60.8 million) and RMB283.0 million (US\$40.4 million) for the preceding quarter and the fourth quarter of 2007, respectively.

On July 2, 2007, the Company's Board authorized a share repurchase program of up to US\$120 million of the Company's outstanding ADSs. As of March 31, 2008, the Company had spent in aggregate a total purchase consideration of approximately US\$46.4 million (including transaction costs). The share repurchase program will end on July 1, 2008.

On May 19, 2008, the Company suspended its online game services to observe a three-day national mourning for earthquake victims from May 19 to May 21.

\*\* The United States dollar (US\$) amounts disclosed in this press release are presented solely for the convenience of the reader. Translations of amounts from RMB into United States dollars for the convenience of the reader were calculated at the noon buying rate of US\$1.00 = RMB7.0120 on March 31, 2008 in The City of New York for the cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on March 31, 2008, or at any other certain date. The percentages stated are calculated based on RMB.

### **Notes to Unaudited Financial Information**

The financial information disclosed in this release is unaudited. The audit of the financial statements and related notes to be included in our annual report on Form 20-F for the year ended December 31, 2007 is still in progress. In addition, because an audit of our internal controls over financial reporting in connection with section 404 of the Sarbanes-Oxley Act of 2002 has not yet been completed, we make no representation as to the effectiveness of those internal controls as of the end of fiscal 2007.

Adjustments to the financial statements may be identified when the year 2007's audit work is completed, which could have impact to the financial information disclosed in this release.

## **Table of Contents**

### **Conference Call**

NetEase's management team will host a conference call at 9:00 pm Eastern Time on Wednesday, May 21, 2008 (Beijing/Hong Kong Time: 9:00 am, Thursday, May 22, 2008). Chief Executive Officer William Ding, Acting Chief Financial Officer Onward Choi, and Co-Chief Operating Officer Michael Tong will be on the call to discuss the quarterly results and answer questions.

Interested parties may participate in the conference call by dialing 800-218-0204 (international: 303-262-2130), 10-15 minutes prior to the initiation of the call. A replay of the call will be available by dialing 800-405-2236 (international: 303-590-3000), and entering passcode 11113229#. The replay will be available through June 6, 2008 Eastern Time.

This call is being webcast live and archived, and will be available for 12 months on NetEase's corporate web site at <http://corp.netease.com>, Investor Info: Earnings Call.

### **About NetEase**

NetEase.com, Inc. is a leading China-based Internet technology company that pioneered the development of applications, services and other technologies for the Internet in China. NetEase's online communities and personalized premium services have established a large and stable user base for the NetEase websites which are operated by its affiliates. In particular, NetEase provides online game services to Internet users through the licensing or in-house development of massively multi-player online role-playing games, including Fantasy Westward Journey, Westward Journey Online II, Westward Journey Online III and Datang.

NetEase also offers online advertising on its websites which enables advertisers to reach its substantial user base. In addition, NetEase has paid listings on its search engine and web directory and classified ads services, as well as an online mall, which provides opportunities for e-commerce and traditional businesses to establish their own storefront on the Internet. NetEase also offers wireless value-added services such as news and information content, matchmaking services, music and photos from the Web which are sent over SMS, MMS, WAP, IVR and Color Ring-back Tone technologies.

Other community services which the NetEase websites offer include instant messaging, online personal ads, matchmaking, alumni clubs and community forums. NetEase is also the largest provider of free e-mail services in China. Furthermore, the NetEase websites provide various channels of content. NetEase aggregates news content on world events, sports, science and technology, and financial markets, as well as entertainment content such as cartoons, games, astrology and jokes, from over one hundred international and domestic content providers.

**Table of Contents**

\* \* \*

This press release contains statements of a forward-looking nature. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as will, expects, anticipates, future, intends, plans, believes, estimates and similar statements. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including risks related to: the risk that NetEase will not be successful in its product diversification efforts, including its focus on item- and fee-based games and exploration of strategic licensing opportunities; the risk that the online game market will not continue to grow or that NetEase will not be able to maintain its leading position in that market, which could occur if, for example, its new online games or expansion packs and other improvements to its existing games do not become as popular as management anticipates; the ability of NetEase to effectively market its games and other services and achieve a positive return on its marketing expenditures; the risk that changes in Chinese government regulation of the online game market may limit future growth of NetEase's revenue or cause revenue to decline; the risk that NetEase may not be able to continuously develop new and creative online services; the risk that NetEase will not be able to control its expenses in future periods; competition in NetEase's existing and potential markets; governmental uncertainties (including possible changes in the effective tax rates applicable to NetEase and its subsidiaries and affiliates and the ability of NetEase to receive approvals of the preferential tax treatments previously available to certain of its subsidiaries and VIEs in China), general competition and price pressures in the marketplace; the risk that security, reliability and confidentiality concerns may impede broad use of the Internet and e-commerce and other services; the risk that fluctuations in the value of the Renminbi with respect to other currencies could adversely affect NetEase's business and financial results; and other risks outlined in NetEase's filings with the Securities and Exchange Commission. NetEase does not undertake any obligation to update this forward-looking information, except as required under applicable law.

**Table of Contents****NETEASE.COM, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

|                                                              | <b>December 31,<br/>2007<br/>RMB</b> | <b>March 31,<br/>2008<br/>RMB</b> | <b>March 31,<br/>2008<br/>USD (Note 1)</b> |
|--------------------------------------------------------------|--------------------------------------|-----------------------------------|--------------------------------------------|
| <b>Assets</b>                                                |                                      |                                   |                                            |
| Current assets:                                              |                                      |                                   |                                            |
| Cash                                                         | 2,482,820,821                        | 2,261,464,362                     | 322,513,457                                |
| Time deposits                                                | 1,675,813,944                        | 2,224,789,352                     | 317,283,136                                |
| Accounts receivable, net                                     | 166,727,514                          | 114,357,426                       | 16,308,817                                 |
| Prepayments and other current assets                         | 45,143,728                           | 48,883,807                        | 6,971,450                                  |
| Deferred tax assets                                          | 65,787,113                           | 72,683,739                        | 10,365,622                                 |
| Total current assets                                         | 4,436,293,120                        | 4,722,178,686                     | 673,442,482                                |
| Non-current assets:                                          |                                      |                                   |                                            |
| Non-current rental deposits                                  | 3,033,171                            | 3,443,049                         | 491,022                                    |
| Property, equipment and software, net                        | 183,471,666                          | 178,745,154                       | 25,491,323                                 |
| Prepayment for land use right, net                           | 26,956,800                           | 27,732,137                        | 3,954,954                                  |
| Deferred tax assets                                          | 19,060,225                           | 19,145,138                        | 2,730,339                                  |
| Other long-term assets                                       | 16,844,399                           | 17,612,114                        | 2,511,710                                  |
| Total non-current assets                                     | 249,366,261                          | 246,677,592                       | 35,179,348                                 |
| Total assets                                                 | 4,685,659,381                        | 4,968,856,278                     | 708,621,830                                |
| <b>Liabilities and Shareholders' Equity</b>                  |                                      |                                   |                                            |
| Current liabilities:                                         |                                      |                                   |                                            |
| Zero-coupon convertible subordinated notes due July 15, 2023 | 641,778,908                          | 616,915,760                       | 87,980,000                                 |
| Accounts payable                                             | 89,143,868                           | 87,189,714                        | 12,434,357                                 |
| Salary and welfare payables                                  | 68,653,742                           | 51,310,397                        | 7,317,512                                  |
| Taxes payable                                                | 92,438,670                           | 161,111,117                       | 22,976,486                                 |
| Deferred revenue                                             | 354,966,697                          | 395,545,895                       | 56,409,854                                 |
| Accrued liabilities                                          | 29,844,067                           | 34,840,184                        | 4,968,651                                  |
| Total current liabilities                                    | 1,276,825,952                        | 1,346,913,067                     | 192,086,860                                |
| Long-term payable:                                           |                                      |                                   |                                            |
| Other long-term payable                                      | 10,200,000                           | 10,200,000                        | 1,454,649                                  |
| Total long-term payable                                      | 10,200,000                           | 10,200,000                        | 1,454,649                                  |
| Total liabilities                                            | 1,287,025,952                        | 1,357,113,067                     | 193,541,509                                |
| Shareholders' equity                                         | 3,398,425,631                        | 3,611,538,924                     | 515,051,187                                |
| Minority interests                                           | 207,798                              | 204,287                           | 29,134                                     |

Edgar Filing: NETEASE.COM, INC. - Form 6-K

|                                            |               |               |             |
|--------------------------------------------|---------------|---------------|-------------|
| Total liabilities and shareholders' equity | 4,685,659,381 | 4,968,856,278 | 708,621,830 |
|--------------------------------------------|---------------|---------------|-------------|

The accompanying notes are an integral part of this press release.

**Table of Contents**

NETEASE.COM, INC.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                          | Quarter Ended            |                             |                          |                                   |
|------------------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------------|
|                                          | March 31,<br>2007<br>RMB | December 31,<br>2007<br>RMB | March 31,<br>2008<br>RMB | March 31,<br>2008<br>USD (Note 1) |
| <b>Revenues:</b>                         |                          |                             |                          |                                   |
| Online game services                     | 481,865,952              | 506,968,240                 | 555,859,907              | 79,272,662                        |
| Advertising services                     | 56,195,605               | 98,055,630                  | 77,144,002               | 11,001,712                        |
| Wireless value-added services and others | 16,550,555               | 17,026,320                  | 18,919,553               | 2,698,168                         |
| Total revenues                           | 554,612,112              | 622,050,190                 | 651,923,462              | 92,972,542                        |
| Business taxes                           | (21,316,231)             | (25,761,100)                | (7,469,810)              | (1,065,290)                       |
| <b>Total net revenues</b>                | <b>533,295,881</b>       | <b>596,289,090</b>          | <b>644,453,652</b>       | <b>91,907,252</b>                 |
| <b>Total cost of revenues</b>            | <b>(103,204,518)</b>     | <b>(108,270,695)</b>        | <b>(112,495,076)</b>     | <b>(16,043,222)</b>               |
| <b>Gross profit</b>                      | <b>430,091,363</b>       | <b>488,018,395</b>          | <b>531,958,576</b>       | <b>75,864,030</b>                 |
| <b>Operating expenses:</b>               |                          |                             |                          |                                   |
| Selling and marketing expenses           | (43,089,175)             | (59,767,163)                | (38,246,993)             | (5,454,506)                       |
| General and administrative expenses      | (35,181,129)             | (44,341,316)                | (43,143,442)             | (6,152,801)                       |
| Research and development expenses        | (39,384,969)             | (48,724,456)                | (46,184,577)             | (6,586,506)                       |
| Total operating expenses                 | (117,655,273)            | (152,832,935)               | (127,575,012)            | (18,193,813)                      |
| <b>Operating profit</b>                  | <b>312,436,090</b>       | <b>335,185,460</b>          | <b>404,383,564</b>       | <b>57,670,217</b>                 |
| Other income (expenses):                 |                          |                             |                          |                                   |
| Investment income                        | 126,279                  | 114,007                     | 101,650                  | 14,497                            |
| Interest income                          | 23,262,363               | 31,733,301                  | 30,873,332               | 4,402,928                         |
| Other, net                               | (732,222)                | (30,144,109)                | (51,178,963)             | (7,298,768)                       |
| <b>Profit before tax</b>                 | <b>335,092,510</b>       | <b>336,888,659</b>          | <b>384,179,583</b>       | <b>54,788,874</b>                 |
| Income tax                               | (33,597,844)             | 52,868,775                  | (114,832,848)            | (16,376,618)                      |
| <b>Profit after tax</b>                  | <b>301,494,666</b>       | <b>389,757,434</b>          | <b>269,346,735</b>       | <b>38,412,256</b>                 |
| Minority interests                       |                          | 74,364                      | 3,511                    | 501                               |
| <b>Net profit</b>                        | <b>301,494,666</b>       | <b>389,831,798</b>          | <b>269,350,246</b>       | <b>38,412,757</b>                 |
| Earnings per share, basic                | 0.10                     | 0.13                        | 0.09                     | 0.01                              |
| Earnings per ADS, basic                  | 2.39                     | 3.21                        | 2.22                     | 0.32                              |
| Earnings per share, diluted              | 0.09                     | 0.12                        | 0.08                     | 0.01                              |
| Earnings per ADS, diluted                | 2.21                     | 3.01                        | 2.08                     | 0.30                              |

## Edgar Filing: NETEASE.COM, INC. - Form 6-K

|                                                                 |               |               |               |               |
|-----------------------------------------------------------------|---------------|---------------|---------------|---------------|
| Weighted average number of ordinary shares outstanding, basic   | 3,160,128,710 | 3,033,153,746 | 3,028,995,782 | 3,028,995,782 |
| Weighted average number of ADS outstanding, basic               | 126,405,148   | 121,326,150   | 121,159,831   | 121,159,831   |
| Weighted average number of ordinary shares outstanding, diluted | 3,410,647,795 | 3,240,836,099 | 3,233,744,526 | 3,233,744,526 |
| Weighted average number of ADS outstanding, diluted             | 136,425,912   | 129,633,444   | 129,349,781   | 129,349,781   |

The accompanying notes are an integral part of this press release.

**Table of Contents**

NETEASE.COM, INC.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                   | Quarter Ended            |                             |                          |                                   |
|-----------------------------------------------------------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------------|
|                                                                                   | March 31,<br>2007<br>RMB | December 31,<br>2007<br>RMB | March 31,<br>2008<br>RMB | March 31,<br>2008<br>USD (Note 1) |
| <b>Cash flows from operating activities:</b>                                      |                          |                             |                          |                                   |
| Net profit                                                                        | 301,494,666              | 389,831,798                 | 269,350,246              | 38,412,757                        |
| Adjustments to reconcile net profit to net cash provided by operating activities: |                          |                             |                          |                                   |
| Depreciation and amortization                                                     | 24,274,997               | 26,752,268                  | 24,085,433               | 3,434,888                         |
| Share-based compensation cost                                                     | 20,237,797               | 22,060,172                  | 19,282,517               | 2,749,931                         |
| Reversal of provision for doubtful debts                                          | (8,182,712)              | (228,892)                   | (1,202,665)              | (171,515)                         |
| Loss (gain) on disposal of property, equipment and software                       | 416,242                  | 38,711                      | (53,816)                 | (7,675)                           |
| Unrealized exchange losses                                                        | 531,592                  | 30,230,159                  | 50,399,867               | 7,187,659                         |
| Share of loss by minority interests                                               |                          | (74,364)                    | (3,511)                  | (501)                             |
| Net equity share of loss from an associated company                               |                          | 351,101                     | 386,123                  | 55,066                            |
| Others                                                                            | 278,324                  |                             |                          |                                   |
| Changes in operating assets and liabilities:                                      |                          |                             |                          |                                   |
| Accounts receivable                                                               | 63,629,570               | (28,797,530)                | 53,521,635               | 7,632,863                         |
| Prepayments and other current assets                                              | (19,599,070)             | 19,140,543                  | (5,467,334)              | (779,712)                         |
| Deferred tax assets                                                               | (330,359)                | (45,969,165)                | (6,896,626)              | (983,546)                         |
| Deferred tax assets - non-current                                                 | 5,126,664                | (11,939,153)                | (84,913)                 | (12,110)                          |
| Accounts payable                                                                  | (23,295,601)             | 4,839,436                   | (900,446)                | (128,415)                         |
| Salary and welfare payables                                                       | (6,687,391)              | 25,160,475                  | (17,343,345)             | (2,473,381)                       |
| Taxes payable                                                                     | (23,419,176)             | 11,798,902                  | 68,672,447               | 9,793,561                         |
| Deferred revenue                                                                  | (44,351,950)             | (14,094,607)                | 40,579,198               | 5,787,108                         |
| Deferred tax liabilities                                                          | 698,123                  |                             |                          |                                   |
| Accrued liabilities                                                               | (7,779,795)              | (2,499,785)                 | 635,974                  | 90,698                            |
| Net cash provided by operating activities                                         | 283,041,921              | 426,600,069                 | 494,960,784              | 70,587,676                        |
| <b>Cash flows from investing activities:</b>                                      |                          |                             |                          |                                   |
| Purchase of property, equipment and software                                      | (33,208,899)             | (13,885,112)                | (15,418,337)             | (2,198,850)                       |
| Proceeds from sale of property, equipment and software                            | 14,109                   | 25,434                      | 56,540                   | 8,063                             |
| Prepayment for land use right                                                     |                          |                             | (822,182)                | (117,254)                         |
| Transfer from restricted cash                                                     |                          | 761,580,600                 |                          |                                   |
| Net change in time deposits with terms of three months                            | 228,588,067              | (200,145,698)               | (252,686,082)            | (36,036,235)                      |
| Placement/rollover of matured time deposits                                       | (75,000,000)             | (270,000,000)               | (422,426,062)            | (60,243,306)                      |
| Uplift of matured time deposits                                                   | 65,000,000               | 655,105,518                 | 126,035,000              | 17,974,187                        |
| Net change in other assets                                                        | 4,355                    | (89,786)                    | (412,578)                | (58,839)                          |
| Net cash provided by (used in) investing activities                               | 185,397,632              | 932,590,956                 | (565,673,701)            | (80,672,234)                      |
| <b>Cash flows from financing activities:</b>                                      |                          |                             |                          |                                   |
| Proceeds from employees exercising stock options                                  | 1,870,625                | 1,618,804                   | 642,039                  | 91,563                            |
| Repurchase of company shares                                                      | (160,750,459)            | (36,478,319)                | (76,433,652)             | (10,900,407)                      |
| Payment of other long-term payable                                                | (138,681)                |                             |                          |                                   |
| Minority interests                                                                |                          | 282,162                     |                          |                                   |

|                                                                    |               |               |               |              |
|--------------------------------------------------------------------|---------------|---------------|---------------|--------------|
| Net cash used in financing activities                              | (159,018,515) | (34,577,353)  | (75,791,613)  | (10,808,844) |
| Effect of exchange rate changes on cash held in foreign currencies | (8,028,654)   | (47,214,367)  | (74,851,929)  | (10,674,833) |
| Net increase (decrease) in cash                                    | 301,392,384   | 1,277,399,305 | (221,356,459) | (31,568,235) |
| <b>Cash, beginning of the quarter</b>                              | 1,206,476,526 | 1,205,421,516 | 2,482,820,821 | 354,081,692  |
| <b>Cash, end of the quarter</b>                                    | 1,507,868,910 | 2,482,820,821 | 2,261,464,362 | 322,513,457  |

**Supplemental disclosures of cash flow information:**

|                                                              |            |             |            |           |
|--------------------------------------------------------------|------------|-------------|------------|-----------|
| Cash paid for income tax, net of tax refund/(net tax refund) | 45,443,563 | (9,165,960) | 33,512,049 | 4,779,243 |
|--------------------------------------------------------------|------------|-------------|------------|-----------|

**Supplemental schedule of non-cash investing and financing activities:**

|                                                    |             |             |           |           |
|----------------------------------------------------|-------------|-------------|-----------|-----------|
| Treasury stock cancellation                        | 188,802,099 | 121,821,189 |           |           |
| Fixed asset purchases financed by accounts payable | 9,518,303   | 6,112,886   | 9,716,130 | 1,385,643 |
| Conversion of convertible notes to ordinary shares | 86,886,000  |             |           |           |

The accompanying notes are an integral part of this press release.

**Table of Contents****NETEASE.COM, INC.****UNAUDITED SEGMENT INFORMATION**

|                                          | Quarter Ended     |                      |                   |                                      |
|------------------------------------------|-------------------|----------------------|-------------------|--------------------------------------|
|                                          | March 31,<br>2007 | December 31,<br>2007 | March 31,<br>2008 | March 31,<br>2008<br>USD (Note<br>1) |
|                                          | RMB               | RMB                  | RMB               |                                      |
| <b>Revenues:</b>                         |                   |                      |                   |                                      |
| Online game services                     | 481,865,952       | 506,968,240          | 555,859,908       | 79,272,662                           |
| Advertising services                     | 56,195,605        | 98,055,630           | 77,144,002        | 11,001,712                           |
| Wireless value-added services and others | 16,550,555        | 17,026,320           | 18,919,553        | 2,698,168                            |
| Total revenues                           | 554,612,112       | 622,050,190          | 651,923,463       | 92,972,542                           |
| <b>Business taxes:</b>                   |                   |                      |                   |                                      |
| Online game services                     | (15,901,576)      | (16,729,952)         | (747,630)         | (106,622)                            |
| Advertising services                     | (4,776,626)       | (8,334,729)          | (6,557,240)       | (935,145)                            |
| Wireless value-added services and others | (638,029)         | (696,419)            | (164,940)         | (23,523)                             |
| Total business taxes                     | (21,316,231)      | (25,761,100)         | (7,469,810)       | (1,065,290)                          |
| <b>Net revenues:</b>                     |                   |                      |                   |                                      |
| Online game services                     | 465,964,376       | 490,238,288          | 555,112,278       | 79,166,040                           |
| Advertising services                     | 51,418,979        | 89,720,901           | 70,586,762        | 10,066,567                           |
| Wireless value-added services and others | 15,912,526        | 16,329,901           | 18,754,613        | 2,674,645                            |
| Total net revenues                       | 533,295,881       | 596,289,090          | 644,453,653       | 91,907,252                           |
| <b>Cost of revenues:</b>                 |                   |                      |                   |                                      |
| Online game services                     | (48,506,860)      | (45,658,298)         | (54,582,378)      | (7,784,138)                          |
| Advertising services                     | (33,039,634)      | (43,104,579)         | (38,997,938)      | (5,561,600)                          |
| Wireless value-added services and others | (21,658,024)      | (19,507,818)         | (19,960,360)      | (2,846,600)                          |
| Total cost of revenues                   | (103,204,518)     | (108,270,695)        | (113,540,676)     | (16,192,338)                         |
| <b>Gross profit (loss)</b>               |                   |                      |                   |                                      |
| Online game services                     | 417,457,516       | 444,579,990          | 500,529,900       | 71,381,902                           |
| Advertising services                     | 18,379,345        | 46,616,322           | 31,588,824        | 4,504,967                            |
| Wireless value-added services and others | (5,745,498)       | (3,177,917)          | (1,205,747)       | (171,955)                            |
| Total gross profit                       | 430,091,363       | 488,018,395          | 530,912,977       | 75,714,914                           |
| <b>Gross profit (loss) margin</b>        |                   |                      |                   |                                      |
| Online game services                     | 89.6%             | 90.7%                | 90.2%             | 90.2%                                |
| Advertising services                     | 35.7%             | 52.0%                | 44.8%             | 44.8%                                |
| Wireless value-added services and others | (36.1)%           | (19.5)%              | (6.4)%            | (6.4)%                               |

The accompanying notes are an integral part of this press release.



**Table of Contents****NETEASE.COM, INC.****NOTES TO UNAUDITED FINANCIAL INFORMATION**

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00 = RMB7.0120 on March 31, 2008 in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York.

Note 2: Share-based compensation cost reported in the Company's unaudited condensed consolidated statements of operations is set out as follows:

|                                            | Quarter Ended            |                             |                          |                                   |
|--------------------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------------|
|                                            | March 31,<br>2007<br>RMB | December 31,<br>2007<br>RMB | March 31,<br>2008<br>RMB | March 31,<br>2008<br>USD (Note 1) |
| Share-based compensation cost included in: |                          |                             |                          |                                   |
| Cost of revenue                            | 3,124,056                | 3,444,268                   | 3,147,772                | 448,912                           |
| Operating expenses                         |                          |                             |                          |                                   |
| - Selling and marketing expenses           | 3,508,632                | 3,043,367                   | 2,548,679                | 363,474                           |
| - General and administrative expenses      | 8,006,729                | 7,822,539                   | 7,084,995                | 1,010,410                         |
| - Research and development expenses        | 5,598,380                | 7,749,998                   | 6,501,071                | 927,135                           |