

NETEASE.COM, INC.  
Form 6-K  
August 14, 2007  
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**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 August 2007

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)

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.

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Yes \_\_\_\_\_ No X

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

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The index of exhibits may be found at Page 2

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**NETEASE.COM, INC.**

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Signature

Press Release Regarding Earnings Results for the Second Quarter of 2007 dated August 14, 2007

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Exhibit 99.1

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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: August 14, 2007

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**Exhibit 99.1**

**Press Release**

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**Contact for Media and Investors:**

Brandi Piacente

Investor Relations

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

Tel: (+1) 212-481-2050

Grace Zhao

NetEase.com, Inc.

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

Tel: (+8610) 8255-8208

**NetEase.com Reports Second Quarter 2007**

**Unaudited Financial Results**

(Beijing August 14, 2007) 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 June 30, 2007.

William Ding, Chief Executive Officer and Director of NetEase stated, "Despite relatively flat game revenues quarter-over-quarter, we are aligning the right balance of resources with our long-standing MMORPG expertise and market leadership to build and diversify our game portfolio for near-term growth. Open beta testing for Westward Journey Online III, the upgraded version of Westward Journey Online II, is scheduled to begin in August 2007, and we plan to release an expansion pack for Fantasy Westward Journey during the fourth quarter of 2007. We are also making positive progress with our programming and design improvements for Tianxia II.

Mr. Ding continued, "With respect to our portal business, our expanded content on our news, sports and entertainment channels has enabled us to maintain our momentum in traffic growth. We remain confident about our future opportunity through our focused channel content and email service strategies.

**Second Quarter 2007 Financial Results**

Total revenues for the second quarter of 2007 were RMB558.0 million (US\$73.3 million), compared to RMB554.6 million (US\$72.9 million) and RMB575.3 million (US\$75.6 million) for the preceding quarter and the second quarter of 2006, respectively.

Revenues from online games were RMB475.1 million (US\$62.4 million) for the second quarter of 2007, compared to RMB481.9 million (US\$63.3 million) and RMB486.0 million (US\$63.8 million) for preceding quarter and the second quarter of 2006, respectively.

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Revenues from advertising services were RMB65.3 million (US\$8.6 million) for the second quarter of 2007, compared to RMB56.2million (US\$7.4 million) and RMB68.8 million (US\$9.0 million) for the preceding quarter and the second quarter of 2006, respectively.

Revenues from wireless value-added services and others were RMB17.5 million (US\$2.3 million) for the second quarter of 2007, compared to RMB16.6 million (US\$2.2 million) and RMB20.5 million (US\$2.7 million) for the preceding quarter and the second quarter of 2006, respectively.

Gross profit for the second quarter of 2007 was RMB437.8 million (US\$57.5 million), compared to RMB430.1 million (US\$56.5 million) and RMB457.4 million (US\$60.1 million) for the preceding quarter and the second quarter of 2006, respectively. The quarter-over-quarter increase in gross profit was primarily due to higher advertising services revenue in the second quarter of 2007. The year-over-year decrease in gross profit was mainly due to a decrease in all revenue segments as a result of more intense competition in the PRC internet industry.

Gross margin for the online game business for the second quarter of 2007 was 90.2%, compared to 89.6% and 90.7% for the preceding quarter and the second quarter of 2006, respectively. The quarter-over-quarter increase primarily resulted from operational cost savings which more than offset a decrease in online game revenues in the second quarter of 2007. The year-over-year decrease was primarily driven by a decrease in online game services revenue from Westward Journey Online II and higher staff-related costs as a result of an increase in headcount.

Gross margin for the advertising business for the second quarter of 2007 was 47.2%, compared to 35.7% and 49.8% for the preceding quarter and the second quarter of 2006, respectively. The quarter-over-quarter increase in gross margin was primarily driven by the seasonal increase in advertising spending coupled with savings in content costs in the second quarter of 2007. The year-over-year decline in gross margin was primarily due to decreased advertising services revenue as a result of increased competition.

Gross loss margin for the wireless value-added services and others business for the second quarter of 2007 was 28.1%, compared to gross loss margin of 36.1% and 2.3% for the preceding quarter and the second quarter of 2006, respectively. The quarter-over-quarter improved gross loss margin was primarily due to increased revenues from online fee-based premium services supplied to registered users of the NetEase websites, including premium matchmaking and dating services and product sales generated from registered users. The year-over-year decline in gross margin was primarily driven by a decrease in revenue from wireless services.

Total operating expenses for the second quarter of 2007 were RMB142.8 million (US\$18.8 million), compared to RMB117.7 million (US\$15.5 million) and RMB134.3 million (US\$17.6 million) for the preceding quarter and the second quarter of 2006, respectively. The quarter-over-quarter increase was primarily due to an additional provision for doubtful debts of RMB2.0 million (US\$0.3 million) made during the second quarter of 2007, compared to a reversal of provision for doubtful debts of approximately RMB8.2 million (US\$1.1 million) as a result of the collection of outstanding accounts receivables with respect to the advertising business during the first quarter of 2007. The increase was also due to increased selling and marketing costs of RMB6.5 million (US\$0.9 million) in relation to the marketing of Tianxia II, Westward Journey III and seasonal promotional activities during the second quarter of 2007 and an increase in research and development costs of RMB4.8 million (US\$0.6 million) associated with the increased staffing for enhancing existing products and developing new products. The year-over-year increase was mainly due to an increase in selling and marketing costs, higher staff-related costs as a result of an increase in headcount and increased depreciation charges.

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Net profit for the second quarter of 2007 totaled RMB312.6 million (US\$41.1 million), compared to RMB301.5 million (US\$39.6 million) and RMB314.1 million (US\$41.3 million) for the preceding quarter and the second quarter of 2006, respectively. In June 2007, the Company received a reinvestment incentive tax refund of RMB24.4 million (US\$3.2 million), which significantly reduced the Company's income tax expense for the second quarter of 2007. NetEase reported basic and diluted earnings per American depositary shares (ADS) of US\$0.33 and US\$0.31 for the second quarter of 2007, respectively. The Company reported basic and diluted earnings per ADS of US\$0.31 and US\$0.29 and US\$0.32 and US\$0.29 for the preceding quarter and the second quarter of 2006, respectively.

**Other Information**

As of June 30, 2007, the Company's total cash and time deposit balance was RMB3.0 billion (US\$391.5 million), compared to RMB3.9 billion (US\$517.3 million) and RMB3.6 billion (US\$474.4 million) as of December 31, 2006 and June 30, 2006, respectively. In addition, there was a restricted cash balance of RMB761.6 million (US\$100.1 million) as of June 30, 2007 primarily related to the Company's committed revolving loan facility. The loan facility can be used by the Company at its discretion to fund any redemption requests made by the holders of its zero coupon convertible subordinated notes in accordance with the terms of those notes. Cash flow generated from operating activities was approximately RMB331.0 million (US\$43.5 million) for the second quarter of 2007, compared to RMB283.0 million (US\$37.2 million) and RMB296.5 million (US\$39.0 million) for the preceding quarter and the second quarter of 2006, respectively.

On March 13, 2007, the Company's Board authorized a share repurchase program of up to US\$100 million of the Company's outstanding ADSs for a period not to exceed three months. When the share repurchase program ended on June 12, 2007, the Company had spent in aggregate a total purchase consideration of approximately US\$95.7 million (including transaction costs). With respect to the separate share repurchase program of up to US\$120 million authorized by the Company's Board on July 2, 2007, at July 31, 2007 the Company had spent in aggregate a total purchase consideration of approximately US\$5.6 million (including transaction costs). The share repurchase program will end on July 1, 2008.

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\*\* 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 = RMB7.6120 on June 29, 2007 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 June 29, 2007, or at any other certain date. The percentages stated are calculated based on RMB.

**Conference Call**

NetEase's management team will host a conference call at 9:00 pm Eastern Time on Monday, August 13, 2007, (Beijing/Hong Kong Time: 9:00 am, Tuesday, August 14, 2007). 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.

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Interested parties may participate in the conference call by dialing 800-238-9007 (international: 719-457-2622), 10-15 minutes prior to the initiation of the call. A replay of the call will be available by dialing 888-203-1112 (international 719-457-0820), and entering passcode 4257393. The replay will be available through August 26, 2007 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 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, personal home pages 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.

\* \* \*

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 able to adequately address feedback from gamers to enhance the appeal of Tianxia II; 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



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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), 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.

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NETEASE.COM, INC.

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | December 31,<br>2006<br>RMB | June 30,<br>2007<br>RMB | June 30,<br>2007<br>USD (Note 1) |
|--|-----------------------------|-------------------------|----------------------------------|
| <b>Assets</b>  |                             |                         |                                  |
| Current assets:  |                             |                         |                                  |
| Cash   | 1,206,476,526               | 920,360,140             | 120,909,110                      |
| Time deposits  | 2,731,396,687               | 2,060,113,281           | 270,640,210                      |
| Accounts receivable, net                                     | 131,724,899                 | 121,952,397             | 16,021,072                       |
| Prepayments and other current assets                         | 33,913,350                  | 71,545,877              | 9,399,090                        |
| Deferred tax assets  | 25,674,468                  | 21,878,296              | 2,874,185                        |
| Total current assets   | 4,129,185,930               | 3,195,849,991           | 419,843,667                      |
| Non-current assets:  |                             |                         |                                  |
| Non-current rental deposits                                  | 3,353,209                   | 3,074,885               | 403,952                          |
| Property, equipment and software, net                        | 224,207,833                 | 207,293,823             | 27,232,504                       |
| Prepayment for land use right                                |                             | 26,956,800              | 3,541,356                        |
| Restricted cash  |                             | 761,580,600             | 100,050,000                      |
| Deferred tax assets  | 5,502,361                   | 1,764,727               | 231,835                          |
| Other long-term assets                                       | 11,458,497                  | 11,699,281              | 1,536,952                        |
| Total non-current assets                                     | 244,521,900                 | 1,012,370,116           | 132,996,599                      |
| Total assets   | 4,373,707,830               | 4,208,220,107           | 552,840,266                      |
| <b>Liabilities and Shareholders Equity</b>                   |                             |                         |                                  |
| Current liabilities:   |                             |                         |                                  |
| Accounts payable   | 105,555,248                 | 103,931,120             | 13,653,589                       |
| Salary and welfare payables                                  | 54,924,038                  | 54,216,245              | 7,122,470                        |
| Taxes payable  | 95,476,498                  | 71,412,637              | 9,381,587                        |
| Deferred revenue   | 385,720,720                 | 329,893,598             | 43,338,623                       |
| Deferred tax liabilities                                     | 3,391,754                   |                         |                                  |
| Accrued liabilities  | 31,340,217                  | 22,772,754              | 2,991,691                        |
| Total current liabilities                                    | 676,408,475                 | 582,226,354             | 76,487,960                       |
| Long-term payable:   |                             |                         |                                  |
| Zero-coupon convertible subordinated notes due July 15, 2023 | 780,253,918                 | 675,412,760             | 88,730,000                       |
| Other long-term payable                                      | 11,377,256                  | 11,200,000              | 1,471,361                        |
| Total long-term payable                                      | 791,631,174                 | 686,612,760             | 90,201,361                       |
| Total liabilities  | 1,468,039,649               | 1,268,839,114           | 166,689,321                      |
| Shareholders equity  | 2,905,668,181               | 2,939,380,993           | 386,150,945                      |
| Minority interests   |                             |                         |                                  |

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Total liabilities and shareholders' equity 4,373,707,830 4,208,220,107 552,840,266

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

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NETEASE.COM, INC.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | Quarter Ended           |                          |                         |                                  |
|--|-------------------------|--------------------------|-------------------------|----------------------------------|
|  | June 30,<br>2006<br>RMB | March 31,<br>2007<br>RMB | June 30,<br>2007<br>RMB | June 30,<br>2007<br>USD (Note 1) |
| <b>Revenues:</b>   |                         |                          |                         |                                  |
| Online game services   | 486,006,106             | 481,865,952              | 475,149,731             | 62,421,142                       |
| Advertising services   | 68,763,795              | 56,195,605               | 65,328,019              | 8,582,241                        |
| Wireless value-added services and others                             | 20,507,390              | 16,550,555               | 17,494,877              | 2,298,329                        |
| <b>Total revenues</b>  | <b>575,277,291</b>      | <b>554,612,112</b>       | <b>557,972,627</b>      | <b>73,301,712</b>                |
| Business taxes   | (22,646,424)            | (21,316,231)             | (21,926,013)            | (2,880,454)                      |
| <b>Total net revenues</b>  | <b>552,630,867</b>      | <b>533,295,881</b>       | <b>536,046,614</b>      | <b>70,421,258</b>                |
| <b>Total cost of revenues</b>  | <b>(95,269,844)</b>     | <b>(103,204,518)</b>     | <b>(98,267,119)</b>     | <b>(12,909,501)</b>              |
| <b>Gross profit</b>  | <b>457,361,023</b>      | <b>430,091,363</b>       | <b>437,779,495</b>      | <b>57,511,757</b>                |
| <b>Operating expenses:</b>   |                         |                          |                         |                                  |
| Selling and marketing expenses                                       | (44,210,634)            | (43,089,175)             | (49,272,271)            | (6,472,973)                      |
| General and administrative expenses                                  | (43,807,041)            | (35,181,129)             | (48,380,093)            | (6,355,766)                      |
| Research and development expenses                                    | (46,293,935)            | (39,384,969)             | (45,110,176)            | (5,926,192)                      |
| <b>Total operating expenses</b>                                      | <b>(134,311,610)</b>    | <b>(117,655,273)</b>     | <b>(142,762,540)</b>    | <b>(18,754,931)</b>              |
| <b>Operating profit</b>  | <b>323,049,413</b>      | <b>312,436,090</b>       | <b>295,016,955</b>      | <b>38,756,826</b>                |
| <b>Other income (expenses):</b>                                      |                         |                          |                         |                                  |
| Investment income  | 100,931                 | 126,279                  | 117,317                 | 15,412                           |
| Interest income  | 24,263,200              | 23,262,363               | 28,409,895              | 3,732,251                        |
| Other, net   | (414,399)               | (732,222)                | (8,934,188)             | (1,173,698)                      |
| <b>Profit before tax</b>   | <b>346,999,145</b>      | <b>335,092,510</b>       | <b>314,609,979</b>      | <b>41,330,791</b>                |
| Income tax   | (32,888,956)            | (33,597,844)             | (2,013,483)             | (264,514)                        |
| <b>Net profit</b>  | <b>314,110,189</b>      | <b>301,494,666</b>       | <b>312,596,496</b>      | <b>41,066,277</b>                |
| <b>Earnings per share, basic</b>                                     | <b>0.10</b>             | <b>0.10</b>              | <b>0.10</b>             | <b>0.01</b>                      |
| <b>Earnings per ADS, basic</b>                                       | <b>2.41</b>             | <b>2.39</b>              | <b>2.52</b>             | <b>0.33</b>                      |
| <b>Earnings per share, diluted</b>                                   | <b>0.09</b>             | <b>0.09</b>              | <b>0.09</b>             | <b>0.01</b>                      |
| <b>Earnings per ADS, diluted</b>                                     | <b>2.23</b>             | <b>2.21</b>              | <b>2.35</b>             | <b>0.31</b>                      |
| <b>Weighted average number of ordinary shares outstanding, basic</b> | <b>3,254,702,252</b>    | <b>3,160,128,710</b>     | <b>3,100,597,113</b>    | <b>3,100,597,113</b>             |
| <b>Weighted average number of ADS outstanding, basic</b>             | <b>130,188,090</b>      | <b>126,405,148</b>       | <b>124,023,885</b>      | <b>124,023,885</b>               |

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|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Weighted average number of ordinary shares outstanding, diluted | 3,537,762,110 | 3,410,647,795 | 3,318,874,571 | 3,318,874,571 |
| Weighted average number of ADS outstanding, diluted             | 141,510,484   | 136,425,912   | 132,754,983   | 132,754,983   |

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

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NETEASE.COM, INC.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | Quarter Ended           |                          |                         |                                  |
|---|-------------------------|--------------------------|-------------------------|----------------------------------|
|   | June 30,<br>2006<br>RMB | March 31,<br>2007<br>RMB | June 30,<br>2007<br>RMB | June 30,<br>2007<br>USD (Note 1) |
| <b>Cash flows from operating activities:</b>                                      |                         |                          |                         |                                  |
| Net profit  | 314,110,189             | 301,494,666              | 312,596,496             | 41,066,277                       |
| Adjustments to reconcile net profit to net cash provided by operating activities: |                         |                          |                         |                                  |
| Depreciation  | 17,001,040              | 24,274,997               | 24,063,948              | 3,161,317                        |
| Share-based compensation cost   | 26,246,035              | 20,237,797               | 27,057,772              | 3,554,621                        |
| (Reversal) provision for doubtful debts   | 407,553                 | (8,182,712)              | 2,009,537               | 263,996                          |
| Amortization of issuance cost of convertible notes                                | 1,897,029               |                          |                         |                                  |
| (Gain) Loss on disposal of property, equipment and software                       | 526,268                 | 416,242                  | (321,538)               | (42,241)                         |
| Write-off of property, equipment and software                                     | 11,638,451              |                          |                         |                                  |
| Non-cash exchange losses  | 44,705                  | 531,592                  | 8,866,712               | 1,164,833                        |
| Other   |                         | 278,324                  |                         |                                  |
| Changes in operating assets and liabilities:                                      |                         |                          |                         |                                  |
| Accounts receivable   | (35,163,684)            | 63,629,570               | (47,689,980)            | (6,265,105)                      |
| Prepayments and other current assets  | (5,727,096)             | (19,599,070)             | (18,488,436)            | (2,428,854)                      |
| Deferred tax assets   | 3,610,105               | (330,359)                | 4,126,531               | 542,109                          |
| Deferred tax - non-current  |                         | 5,126,664                | (1,389,030)             | (182,479)                        |
| Accounts payable  | (62,187,069)            | (23,295,601)             | 31,741,208              | 4,169,891                        |
| Salary and welfare payables   | 5,989,995               | (6,687,391)              | 5,216,308               | 685,274                          |
| Taxes payable   | (13,188,444)            | (23,419,176)             | (347,813)               | (45,693)                         |
| Deferred revenue  | 23,220,662              | (44,351,950)             | (11,475,172)            | (1,507,511)                      |
| Deferred tax liabilities  | 46,461                  | 698,123                  | (4,089,877)             | (537,293)                        |
| Accrued liabilities   | 8,024,310               | (7,779,795)              | (829,872)               | (109,022)                        |
| Net cash provided by operating activities   | 296,496,510             | 283,041,921              | 331,046,794             | 43,490,120                       |
| <b>Cash flows from investing activities:</b>                                      |                         |                          |                         |                                  |
| Purchase of property, equipment and software                                      | (34,694,354)            | (33,208,899)             | (7,948,685)             | (1,044,231)                      |
| Proceeds from sale of property, equipment and software                            | 148,076                 | 14,109                   | 5,812                   | 764                              |
| Prepayment for land use right   |                         |                          | (26,956,800)            | (3,541,356)                      |
| Transfer to restricted cash   |                         |                          | (761,580,600)           | (100,050,000)                    |
| Net change in time deposits with terms of three months or less                    |                         | 223,356,370              | 313,909,363             | 41,238,750                       |
| Placement/rollover of matured time deposits                                       |                         | (75,000,000)             | (90,542,729)            | (11,894,736)                     |
| Uplift/placement of matured time deposits   | (44,367,121)            | 65,000,000               | 212,513,368             | 27,918,204                       |
| Net increase in other assets  | (23,525,366)            | 4,355                    |                         |                                  |
| Net cash (used in) provided by investing activities                               | (102,438,765)           | 180,165,935              | (360,600,271)           | (47,372,605)                     |
| <b>Cash flows from financing activities:</b>                                      |                         |                          |                         |                                  |
| Proceeds from employees exercising stock options                                  | 10,560,050              | 1,870,625                | 18,924,290              | 2,486,113                        |
| Repurchase of company shares  | (401,741,200)           | (160,750,459)            | (574,604,375)           | (75,486,649)                     |
| Payment of other long-term payable  | (177,256)               | (138,681)                | (38,575)                | (5,068)                          |
| Net cash used in financing activities   | (391,358,406)           | (159,018,515)            | (555,718,660)           | (73,005,604)                     |

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|  |                      |                      |                      |                    |
|--|----------------------|----------------------|----------------------|--------------------|
| Effect of exchange rate changes on cash held in foreign currencies | (2,061,070)          | (2,796,957)          | (2,236,633)          | (293,830)          |
| Net increase (decrease) in cash                                    | (199,361,731)        | 301,392,384          | (587,508,770)        | (77,181,919)       |
| <b>Cash, beginning of the quarter</b>                              | <b>1,899,572,423</b> | <b>1,206,476,526</b> | <b>1,507,868,910</b> | <b>198,091,029</b> |

|                                 |                      |                      |                    |                    |
|---------------------------------|----------------------|----------------------|--------------------|--------------------|
| <b>Cash, end of the quarter</b> | <b>1,700,210,692</b> | <b>1,507,868,910</b> | <b>920,360,140</b> | <b>120,909,110</b> |
|---------------------------------|----------------------|----------------------|--------------------|--------------------|

**Supplemental disclosures of cash flow information:**

|   |            |            |            |           |
|---|------------|------------|------------|-----------|
| Cash paid for income taxes, net of tax refund | 36,511,672 | 45,443,563 | 16,061,871 | 2,110,072 |
|---|------------|------------|------------|-----------|

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

|                             |  |             |             |            |
|-----------------------------|--|-------------|-------------|------------|
| Treasury stock cancellation |  | 188,802,099 | 643,954,432 | 84,597,272 |
|-----------------------------|--|-------------|-------------|------------|

|  |            |           |            |           |
|--|------------|-----------|------------|-----------|
| Fixed asset purchases financed by accounts payable | 11,307,553 | 9,518,303 | 11,520,005 | 1,513,401 |
|--|------------|-----------|------------|-----------|

|  |  |            |  |  |
|--|--|------------|--|--|
| Conversion of convertible notes to ordinary shares |  | 86,886,000 |  |  |
|--|--|------------|--|--|

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

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**UNAUDITED SEGMENT INFORMATION**

|  | Quarter Ended       |                      |                     |                     |
|--|---------------------|----------------------|---------------------|---------------------|
|  | June 30,            | March 31,            | June 30,            | June 30,            |
|  | 2006                | 2007                 | 2007                | 2007                |
|  | RMB                 | RMB                  | RMB                 | USD (Note 1)        |
| <b>Revenues:</b>                         |                     |                      |                     |                     |
| Online game services                     | 486,006,106         | 481,865,952          | 475,149,731         | 62,421,142          |
| Advertising services                     | 68,763,795          | 56,195,605           | 65,328,019          | 8,582,241           |
| Wireless value-added services and others | 20,507,390          | 16,550,555           | 17,494,877          | 2,298,329           |
| <b>Total revenues</b>                    | <b>575,277,291</b>  | <b>554,612,112</b>   | <b>557,972,627</b>  | <b>73,301,712</b>   |
| <b>Business taxes:</b>                   |                     |                      |                     |                     |
| Online game services                     | (16,038,201)        | (15,901,576)         | (15,679,941)        | (2,059,898)         |
| Advertising services                     | (5,844,923)         | (4,776,626)          | (5,552,882)         | (729,491)           |
| Wireless value-added services and others | (763,300)           | (638,029)            | (693,190)           | (91,065)            |
| <b>Total business taxes</b>              | <b>(22,646,424)</b> | <b>(21,316,231)</b>  | <b>(21,926,013)</b> | <b>(2,880,454)</b>  |
| <b>Net revenues:</b>                     |                     |                      |                     |                     |
| Online game services                     | 469,967,905         | 465,964,376          | 459,469,790         | 60,361,244          |
| Advertising services                     | 62,918,872          | 51,418,979           | 59,775,137          | 7,852,750           |
| Wireless value-added services and others | 19,744,090          | 15,912,526           | 16,801,687          | 2,207,264           |
| <b>Total net revenues</b>                | <b>552,630,867</b>  | <b>533,295,881</b>   | <b>536,046,614</b>  | <b>70,421,258</b>   |
| <b>Cost of revenues:</b>                 |                     |                      |                     |                     |
| Online game services                     | (43,479,571)        | (48,506,860)         | (45,151,473)        | (5,931,618)         |
| Advertising services                     | (31,587,268)        | (33,039,634)         | (31,585,837)        | (4,149,479)         |
| Wireless value-added services and others | (20,203,005)        | (21,658,024)         | (21,529,809)        | (2,828,404)         |
| <b>Total cost of revenues</b>            | <b>(95,269,844)</b> | <b>(103,204,518)</b> | <b>(98,267,119)</b> | <b>(12,909,501)</b> |
| <b>Gross profit/(loss):</b>              |                     |                      |                     |                     |
| Online game services                     | 426,488,334         | 417,457,516          | 414,318,317         | 54,429,626          |
| Advertising services                     | 31,331,604          | 18,379,345           | 28,189,300          | 3,703,271           |
| Wireless value-added services and others | (458,915)           | (5,745,498)          | (4,728,122)         | (621,140)           |
| <b>Total gross profit</b>                | <b>457,361,023</b>  | <b>430,091,363</b>   | <b>437,779,495</b>  | <b>57,511,757</b>   |
| <b>Gross profit/(loss) margin:</b>       |                     |                      |                     |                     |
| Online game services                     | 90.7%               | 89.6%                | 90.2%               | 90.2%               |
| Advertising services                     | 49.8%               | 35.7%                | 47.2%               | 47.2%               |
| Wireless value-added services and others | (2.3)%              | (36.1)%              | (28.1)%             | (28.1)%             |

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





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**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 = RMB7.6120 on June 29, 2007 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:

|  | <b>Quarter Ended</b> |                  |                 |                     |
|--|----------------------|------------------|-----------------|---------------------|
|  | <b>June 30,</b>      | <b>March 31,</b> | <b>June 30,</b> | <b>June 30,</b>     |
|  | <b>2006</b>          | <b>2007</b>      | <b>2007</b>     | <b>2007</b>         |
|  | <b>RMB</b>           | <b>RMB</b>       | <b>RMB</b>      | <b>USD (Note 1)</b> |
| Share-based compensation cost included in: |                      |                  |                 |                     |
| Cost of revenue                            | 4,345,487            | 3,124,056        | 4,211,757       | 553,305             |
| Operating expenses                         |                      |                  |                 |                     |
| - Selling and marketing expenses           | 5,431,785            | 3,508,632        | 4,088,683       | 537,136             |
| - General and administrative expenses      | 9,521,066            | 8,006,729        | 9,233,855       | 1,213,066           |
| - Research and development expenses        | 6,947,697            | 5,598,380        | 9,523,477       | 1,251,114           |