

NETEASE.COM, INC.
Form 6-K
November 08, 2006
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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 November 2006

Commission File Number: 000-30666

NETEASE.COM, INC.

2/F, Tower B

Keeven International Research & Development Centre

No. 43 West Road North Third Ring Road, Haidian District

Beijing, People's Republic of China 100086

(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.

The index of exhibits may be found at Page 2

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NETEASE.COM, INC.

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| Press Release Regarding Earnings Results for the Third Quarter of 2006 dated November 6, 2006 | 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/ Denny Lee

Name: Denny Lee

Title: Chief Financial Officer

Date: November 7, 2006

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FINAL

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NetEase Announces Third Quarter 2006 Results

(Beijing November 6, 2006) NetEase.com, Inc. (NASDAQ: NTESE), one of China's leading Internet and online game services providers, today announced its unaudited financial results for the third quarter ended September 30, 2006.

Third Quarter 2006 Performance

Total revenues for the quarter decreased 0.6% quarter-over-quarter and increased 23.6% year-over-year to RMB571.9 million (US\$72.4 million);

U.S. GAAP net profit for the quarter increased 0.2% quarter-over-quarter and 21.7% year-over-year to RMB314.8 million (US\$39.8 million), equivalent to US\$0.29 (diluted) earnings per American Depositary Share (ADS);

Non-GAAP net profit for the quarter, which is exclusive of non-cash, share-based compensation costs, increased 0.1% quarter-over-quarter and 31.8% year-over-year to RMB340.8 million (US\$43.1 million), equivalent to US\$0.31 (diluted) earnings per ADS;

The internal beta testing schedule for the Company's next generation online 3D game, Tianxia II, remains on track, and open beta testing is expected to commence by the end of 2006;

Internal closed beta testing of the upgraded version of Westward Journey II (Westward Journey III) is on schedule to commence in the second quarter of 2007; and

As of September 30, 2006, approximately 1.0 million of the Company's issued and outstanding ADSs had been repurchased for an aggregate purchase consideration of US\$17.1 million (including transaction costs) pursuant to the share repurchase program announced on August 29, 2006.

William Ding, Chief Executive Officer and Director of NetEase stated, "Our online game revenues, which decreased 3.7% quarter-over-quarter, were impacted in part by expected seasonality in the last month of the quarter. In addition, our revenues from online games were affected by increased competition, particularly from free-to-play games offered by some of our competitors, and in-game protests by certain users of our Fantasy Westward Journey game who mistakenly identified an image in this game as being a Japanese flag. Our 21.2% quarter-over-quarter increase in advertising revenue for the third quarter reflected the improved content and optimization of new products and services. We are continuing to improve and expand our online user experience and drive traffic volume within our online communities by introducing new products such as our blog services and a new home page, both launched in October this year."

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Mr. Ding added, We continued to make significant progress in the development of our online game pipeline during the quarter, and remain on track to initiate internal closed beta testing of Westward Journey III, which incorporates a new game engine and new features and content, in early to mid-2007. Tianxia II development is also progressing according to plan, and we expect to commence open beta testing by the end of this year. Datang contributed modestly in its first full quarter since commercialization, but we believe its popularity will grow as we add new content and playing features and increase our marketing of this game.

Total revenues for the third quarter ended September 30, 2006 were RMB571.9 million (US\$72.4 million) compared with RMB575.3 million (US\$72.0 million) for the second quarter of 2006. Total revenues increased 23.6% from RMB462.6 million (US\$57.2 million) for the third quarter of 2005.

Online game revenues were RMB467.9 million (US\$59.2 million) for the third quarter of 2006, representing a decrease of 3.7% from RMB486.0 million (US\$60.8 million) for the second quarter of 2006 and an increase of 25.6% over RMB372.7 million (US\$46.1 million) for the third quarter of 2005.

Revenues from advertising services increased 21.2% to RMB83.4 million (US\$10.5 million) for the third quarter of 2006, from RMB68.8 million (US\$8.6 million) for the second quarter of 2006. Advertising services revenues increased 13.6% over RMB73.4 million (US\$9.1 million) for the third quarter of 2005.

Revenues from the Company's wireless value-added services and others were RMB20.6 million (US\$2.6 million) for the third quarter of 2006, representing an increase of 0.6% from RMB20.5 million (US\$2.6 million) for the second quarter of 2006 and an increase of 24.9% from RMB16.5 million (US\$2.0 million) for the third quarter of 2005.

GAAP gross profit for the third quarter of 2006 was RMB448.1 million (US\$56.7 million). The Company's non-GAAP gross profit in the third quarter was RMB452.3 million (US\$57.2 million), representing a decrease of 2.0% over the previous quarter's non-GAAP gross profit of RMB461.7 million (US\$57.8 million), and an increase of 21.9% over non-GAAP gross profit of RMB370.9 million (US\$45.8 million) for the corresponding period a year ago. The non-GAAP financial measures included in this release exclude the effect of certain non-cash, share based compensation expenses. The reconciliation of GAAP measures with non-GAAP measures for gross profit, operating expenses, net profit and net profit per ADS is set forth in the Company's unaudited financial information below.

Total GAAP gross margin for the Company for the third quarter of 2006 was 81.7%. Total non-GAAP gross margin for the third quarter was 82.5% compared with non-GAAP gross margin of 83.5% for the preceding quarter and 83.6% for the same period last year. The decrease was primarily attributable to the decrease in the gross margin for online games for the reason explained below.

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GAAP gross margin for the online game business for the third quarter of 2006 was 89.4%. Non-GAAP gross margin for the online game business for the third quarter of 2006 was 89.7% compared with non-GAAP gross margin of 91.0% for the preceding quarter and 89.7% for the third quarter of 2005. The decrease was primarily due to the increased costs associated with the open beta testing and initial commercial launch of Datang during the third quarter of 2006.

GAAP gross margin for the advertising business for the third quarter of 2006 was 56.1%. Non-GAAP gross margin for the online advertising business for the third quarter of 2006 was 58.9% compared to non-GAAP gross margin of 53.3% for the preceding quarter and 68.1% for the third quarter of 2005. The quarter-over-quarter increase was primarily due to the fact that advertising costs were relatively stable while advertising revenue grew.

GAAP gross margin for the wireless value-added services and others business for the third quarter of 2006 was 3.4%. Non-GAAP gross margin for the wireless value-added services and others business for the third quarter of 2006 was 7.6% compared with non-GAAP gross margin of 1.9% for the preceding quarter and 11.3% for the third quarter of 2005.

Total GAAP operating expenses for the third quarter of 2006 were RMB131.5 million (US\$16.6 million). Total non-GAAP operating expenses for the third quarter of 2006 were RMB109.7 million (US\$13.9 million), compared with RMB112.4 million (US\$14.1 million) for the preceding quarter and RMB94.7 million (US\$11.7 million) for the same period last year. The decrease in non-GAAP operating expenses in comparison to the preceding quarter was primarily due to a one-time write-off of RMB11.6 million (US\$1.4 million) in software cost for the Company's licensed online 3D game, Fly for Fun, in the second quarter. The decrease was partially off-set by a higher provision for doubtful debts and increased research and development expense associated with increased staffing for enhancement of existing products and for development of new products in the third quarter.

As a result of foreign currency translation from currencies other than the Renminbi into Renminbi in accordance with applicable accounting standards, the Company reported a RMB219,000 (US\$28,000) foreign exchange gain in the third quarter of 2006, compared to a foreign exchange loss of RMB45,000 (US\$6,000) in the preceding quarter. The Company reported a RMB6.4 million (US\$0.8 million) exchange loss in the third quarter of 2005.

GAAP net profit for the third quarter totaled RMB314.8 million (US\$39.8 million). Non-GAAP net profit for the third quarter totaled RMB340.8 million (US\$43.1 million), a 0.1% increase over the previous quarter's non-GAAP net profit of RMB340.4 million (US\$42.6 million) and a 31.8% increase over non-GAAP net profit of RMB258.6 million (US\$32.0 million) for the third quarter of 2005. NetEase reported GAAP basic and diluted earnings per ADS of US\$0.31 and US\$0.29 for the third quarter of 2006, respectively, which includes the impact of approximately US\$3.3 million, or US\$0.02 per ADS, in non-cash, share-based compensation costs. The Company reported GAAP basic and diluted earnings per ADS of US\$0.30 and US\$0.28 for the second quarter of 2006, and US\$0.25 and US\$0.22 for the third quarter of 2005, respectively.

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As of September 30, 2006, the Company's total cash and time deposit balance was RMB3.8 billion (US\$478.7 million), an increase of 4.8% from RMB3.6 billion (US\$451.8 million) at June 30, 2006. Cash flow generated from operating activities was approximately RMB344.5 million (US\$43.6 million), an increase of 16.2% from the previous quarter's RMB296.5 million (US\$37.1 million) and an 18.9% decrease from RMB424.9 million (US\$52.5 million) for the third quarter of 2005.

On August 29, 2006, NetEase announced that its board of directors had approved a share repurchase program of up to US\$100 million of the Company's outstanding ADSs. As of September 30, 2006, the Company had effected transactions in the open market purchasing approximately one million ADSs for an aggregate purchase amount of approximately US\$17.1 million (including transaction costs), representing 17.1% of the total authorized share repurchase amount.

Denny Lee, NetEase's Chief Financial Officer, added, "Our new share repurchase program is double the size of our previous program completed in May 2006, which signals the confidence of our board and management in our long-term growth prospects and vision for the future. Our strong balance sheet and healthy cash flow enables us to strategically reinvest in the current business while continuing to repurchase our ADSs, both with the objective of enhancing shareholder value."

Other Announcements

The Company separately announced today that it is currently negotiating the purchase of an office building in Guangzhou, PRC with total floor space of approximately 20,000 square meters. The Company has been occupying this building on a rent-free basis since its completion in July 2006, pending the completion of negotiations for such purchase. It is expected that the previously disclosed option held by William Ding to purchase the building from its developer will be terminated.

In addition, in July 2006 the Chinese Ministry of Information Industry (MII) issued a Notice on Strengthening Management of Foreign Investment in and Operation of Value-added Telecommunication Services Business. The Notice states that domestic telecommunication companies shall not by any means lease, lend, transfer or sell their telecommunication service operation license to any foreign investor and shall not in any manner provide resources, premises, facilities, equipment or other features to any foreign investor that operates a telecommunication service business illegally in China. The Notice requires that, among other things, an operator of value-added telecommunication services must itself own the domain names and trademarks used by such operator. The Notice further requires that domestic companies which have already obtained value-added telecommunication services licenses evaluate their compliance with these requirements and take corrective action in accordance with these requirements. Local telecommunications authorities are required to monitor the process and inspect the results of such examination and self-correction and submit their inspection report to the MII before November 1, 2006. Companies which do not comply with these requirements must rectify their non-compliance within a specified time period or may have their value-added telecommunication service operation licenses revoked. NetEase conducts all of its Internet information services, advertising and wireless value-added services in China via Guangzhou NetEase and other domestic variable interest entities, or VIEs. Guangzhou NetEase submitted its compliance examination report to the Telecommunications Administration of Guangdong Province, or GDTA, and discussed with GDTA officials on its compliance with these requirements in October 2006 and is currently waiting for the feedback of GDTA. NetEase will continue to evaluate, on an on-going basis, its compliance (including the compliance of its VIEs) with these requirements, and it may take such actions as may be required to satisfy these requirements, including but not limited to modifying the current ownership structure in relation to its trademarks and domain names.

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Non-GAAP Disclosure

To supplement the unaudited consolidated financial statements presented in accordance with United States Generally Accepted Accounting Principles (GAAP), NetEase s management uses non-GAAP measures of gross margin, gross profit, operating expenses, net profit and net profit per American Depositary Share, which are adjusted from results based on GAAP to exclude the compensation cost of share-based awards granted to employees under Statement of Financial Accounting Standard 123R, effective from January 1, 2006. The non-GAAP financial measures, by excluding the non-cash, stock-based compensation costs, are provided to enhance the investors overall understanding of NetEase s current financial performance and prospects for the future. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results.

Reconciliations of NetEase s non-GAAP financial measures to unaudited Consolidated Statements of Operations are set forth at the end of this release.

NetEase s management believes that excluding the share-based compensation expense from its GAAP financial measures of gross margin, gross profit, operating expenses, net profit and net profit per American Depositary Share are useful for itself and investors, because it makes a more meaningful comparison of NetEase s current operating results to those periods prior to the adoption of Statement of Financial Accounting Standard 123R and improves readers understanding of NetEase s performance.

Note: The conversion of Renminbi (RMB) into U.S. dollars in this release is based on the exchange rate of US\$1=RMB7.9040. The percentages stated are calculated based on RMB.

Conference Call

NetEase s management team will host a conference call at 8:00 pm Eastern Time on November 6, 2006 (Beijing/Hong Kong Time: 9:00 am, November 7, 2006). Chief Executive Officer William Ding, Chief Financial Officer Denny Lee, 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 800-967-7184 (international: 719-457-2633), 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 4412175. The replay will be available through December 6, 2006 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.

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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. Our online communities and personalized premium services have established a large and stable user base for the NetEase websites which are operated by our affiliates. For the month of September 2006, the NetEase websites had more than 535 million average daily page views, making us one of the most popular destinations in China and on the World Wide Web. 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 our 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 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 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; the impact of the outbreak of severe acute respiratory syndrome, or SARS, in China and risks related to any possible recurrence of SARS or another public health problem in China; 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.

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

| | December 31, 2005 RMB | September 30, 2006 RMB | September 30, 2006 USD (Note 1) |
|--|-----------------------------|------------------------------|---------------------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash | 1,685,744,081 | 1,137,359,377 | 143,896,682 |
| Time deposit | 1,691,976,255 | 2,646,489,209 | 334,829,100 |
| Accounts receivable, net | 69,631,541 | 117,779,247 | 14,901,220 |
| Prepayments and other current assets | 30,021,448 | 71,373,186 | 9,030,009 |
| Deferred tax assets | 19,929,499 | 19,740,103 | 2,497,483 |
| Total current assets | 3,497,302,824 | 3,992,741,122 | 505,154,494 |
| Property, equipment and software, net | 126,341,533 | 195,172,224 | 24,692,842 |
| Other assets | 1,341,162 | 14,498,456 | 1,834,318 |
| Total assets | 3,624,985,519 | 4,202,411,802 | 531,681,654 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable and other liabilities | 28,848,690 | 35,890,884 | 4,540,850 |
| Salary and welfare payable | 46,438,269 | 41,260,920 | 5,220,259 |
| Taxes payable | 83,828,862 | 94,340,718 | 11,935,820 |
| Deferred revenue | 231,670,971 | 304,622,921 | 38,540,349 |
| Deferred tax liabilities | 3,940,854 | 4,474,045 | 566,048 |
| Accrued liabilities | 20,751,404 | 21,776,634 | 2,755,141 |
| Total current liabilities | 415,479,050 | 502,366,122 | 63,558,467 |
| Long-term payable: | 818,413,108 | 801,619,176 | 101,419,430 |
| Total liabilities | 1,233,892,158 | 1,303,985,298 | 164,977,897 |
| Shareholders' equity: | | | |
| Ordinary shares, US\$0.0001 par value: 1,000,300,000,000 shares authorized, 3,263,526,525 shares issued and outstanding as of December 31, 2005, and 3,244,644,875 shares issued and outstanding as of September 30, 2006 | 2,700,407 | 2,685,004 | 339,702 |
| Additional paid-in capital | 1,129,733,009 | 850,158,243 | 107,560,506 |
| Treasury stock | | (135,413,438) | (17,132,267) |
| Statutory reserve | 135,238,835 | 135,238,835 | 17,110,176 |
| Translation adjustments | 210,838 | | |

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|--|---------------|---------------|-------------|
| Retained earnings | 1,123,210,272 | 2,045,757,860 | 258,825,640 |
| Total shareholders' equity | 2,391,093,361 | 2,898,426,504 | 366,703,757 |
| Total liabilities and shareholders' equity | 3,624,985,519 | 4,202,411,802 | 531,681,654 |

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

Table of Contents**NETEASE.COM, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | September 30, 2005 RMB | Quarter Ended June 30, 2006 RMB | Quarter Ended September 30, 2006 RMB | September 30, 2006 USD (Note 1) |
|--|------------------------------|---------------------------------------|---|---------------------------------------|
| Revenues: | | | | |
| Online game services | 372,681,557 | 486,006,106 | 467,910,918 | 59,199,256 |
| Advertising services | 73,395,974 | 68,763,795 | 83,359,202 | 10,546,458 |
| Wireless value-added services and others | 16,513,205 | 20,507,390 | 20,632,782 | 2,610,423 |
| Total revenues | 462,590,736 | 575,277,291 | 571,902,902 | 72,356,137 |
| Business taxes | (19,146,596) | (22,646,424) | (23,297,732) | (2,947,588) |
| Total net revenues | 443,444,140 | 552,630,867 | 548,605,170 | 69,408,549 |
| Total cost of revenues | (72,530,177) | (95,269,844) | (100,461,056) | (12,710,154) |
| Gross profit | 370,913,963 | 457,361,023 | 448,144,114 | 56,698,395 |
| Operating expenses: | | | | |
| Selling and marketing expenses | (45,833,299) | (44,210,634) | (46,106,919) | (5,833,365) |
| General and administrative expenses | (31,565,291) | (43,807,041) | (46,650,953) | (5,902,195) |
| Research and development expenses | (17,349,717) | (46,293,935) | (38,730,988) | (4,900,176) |
| Total operating expenses | (94,748,307) | (134,311,610) | (131,488,860) | (16,635,736) |
| Operating profit | 276,165,656 | 323,049,413 | 316,655,254 | 40,062,659 |
| Other income (expenses): | | | | |
| Investment income | 332,510 | 100,931 | 104,838 | 13,264 |
| Interest income | 15,027,087 | 24,263,200 | 24,631,766 | 3,116,367 |
| Other, net | (6,320,579) | (414,399) | 1,588,129 | 200,927 |
| Profit before tax | 285,204,674 | 346,999,145 | 342,979,987 | 43,393,217 |
| Income tax | (26,562,308) | (32,888,956) | (28,200,106) | (3,567,827) |
| Net profit | 258,642,366 | 314,110,189 | 314,779,881 | 39,825,390 |
| Earnings per share, basic | 0.08 | 0.10 | 0.10 | 0.01 |
| Earnings per ADS, basic (Note 2) | 1.98 | 2.41 | 2.44 | 0.31 |
| Earnings per share, diluted | 0.07 | 0.09 | 0.09 | 0.01 |
| Earnings per ADS, diluted (Note 2) | 1.79 | 2.23 | 2.26 | 0.29 |
| Weighted average number of ordinary shares outstanding, basic | 3,273,814,404 | 3,254,702,252 | 3,225,819,282 | 3,225,819,282 |

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| Weighted average number of ADS outstanding, basic (Note 2) | 130,952,576 | 130,188,090 | 129,032,771 | 129,032,771 |
| Weighted average number of ordinary shares outstanding, diluted | 3,633,097,331 | 3,537,762,110 | 3,485,412,140 | 3,485,412,140 |
| Weighted average number of ADS outstanding, diluted (Note 2) | 145,323,893 | 141,510,484 | 139,416,486 | 139,416,486 |

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

Table of Contents**NETEASE.COM INC.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | September 30, 2005 RMB | June 30, 2006 RMB | Quarter Ended September 30, 2006 RMB | September 30, 2006 USD (Note 1) |
|--|---------------------------|----------------------|--|------------------------------------|
| Cash flows from operating activities: | | | | |
| Net profit | 258,642,366 | 314,110,189 | 314,779,881 | 39,825,390 |
| Adjustments for: | | | | |
| Depreciation | 12,102,757 | 17,001,040 | 20,216,665 | 2,557,776 |
| Share compensation cost | | 26,246,035 | 25,989,512 | 3,288,147 |
| Provision for doubtful debts | 779,723 | 407,553 | 2,722,739 | 344,476 |
| Amortization of issuance cost of convertible bonds | 1,920,528 | 1,897,029 | 530,114 | 67,069 |
| Loss on disposal of property and equipment | | 526,268 | | |
| Write-off of software cost | | 11,638,451 | | |
| Exchange loss (gain) | 6,440,261 | 44,705 | (219,222) | (27,736) |
| Increase in accounts receivable | (897,282) | (35,163,684) | (23,966,921) | (3,032,252) |
| Increase in prepayments and other current assets | (1,544,647) | (5,727,096) | (15,707,637) | (1,987,302) |
| Decrease in deferred assets | 389,060 | | | |
| (Increase) Decrease in deferred tax assets | (3,639,677) | 3,610,105 | (2,391,803) | (302,607) |
| Increase (Decrease) in accounts payable and other liabilities | 90,683,363 | (62,187,069) | (13,204,082) | (1,670,557) |
| Increase in deferred revenue | 51,810,565 | 23,220,662 | 33,785,515 | 4,274,483 |
| Increase (Decrease) in salary and welfare payable | (3,604,027) | 5,989,995 | (4,015,330) | (508,011) |
| Increase (Decrease) in taxes payable | 10,311,127 | (13,188,444) | 12,449,108 | 1,575,039 |
| Increase in deferred tax liabilities | | 46,461 | 479,699 | 60,691 |
| Increase (Decrease) in accrued liabilities | 1,530,214 | 8,024,310 | (6,996,754) | (885,217) |
| Net cash provided by operating activities | 424,924,331 | 296,496,510 | 344,451,484 | 43,579,389 |
| Cash flows from investing activities | | | | |
| Decrease in held-to-maturity investments | 82,766,000 | | | |
| Purchase of property, equipment and software | (31,957,739) | (34,694,354) | (52,529,277) | (6,645,911) |
| Proceeds of disposed property and equipment | | 148,076 | | |
| Increase in time deposit | (1,432,524,938) | (44,367,121) | (735,357,703) | (93,036,147) |
| Increase in other assets | (348,143) | (23,525,366) | (2,570,962) | (325,274) |
| Net cash used in investing activities | (1,382,064,820) | (102,438,765) | (790,457,942) | (100,007,332) |
| Cash flows from financing activities: | | | | |
| Proceed from employees exercising stock options | 83,972,844 | 10,560,050 | 27,755,249 | 3,511,545 |
| Increase in treasury stock | | (401,741,200) | (135,413,438) | (17,132,267) |
| Decrease in long-term payable | (38,575) | (177,256) | | |
| Net cash provided by financing activities | 83,934,269 | (391,358,406) | (107,658,189) | (13,620,722) |
| Effect of exchange rate changes on cash held in foreign currencies | (25,455,455) | (2,061,070) | (9,186,668) | (1,162,281) |
| Net decrease in cash | (898,661,675) | (199,361,731) | (562,851,315) | (71,210,946) |
| Cash, beginning of the quarter | 2,641,942,061 | 1,899,572,423 | 1,700,210,692 | 215,107,628 |

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| | | | | |
|---------------------------------|---------------|---------------|---------------|-------------|
| Cash, end of the quarter | 1,743,280,386 | 1,700,210,692 | 1,137,359,377 | 143,896,682 |
|---------------------------------|---------------|---------------|---------------|-------------|

Supplemental disclosures of cash flow information:

| | | | | |
|---|------------|------------|------------|-----------|
| Cash paid during the quarter for income taxes | 21,241,734 | 36,511,672 | 46,273,131 | 5,854,394 |
|---|------------|------------|------------|-----------|

Supplemental schedule of non-cash operating, investing and financing activities:

| | | | | |
|----------------------------|-----------|--------|-----------|----------|
| Net exchange losses (gain) | 6,440,261 | 44,705 | (219,222) | (27,736) |
|----------------------------|-----------|--------|-----------|----------|

Compensation costs, arising from transfer of ordinary shares and issuance of stock options in the Company to senior management personnel and some non-employees of the Company

| | | |
|------------|------------|-----------|
| 26,246,035 | 25,989,512 | 3,288,147 |
|------------|------------|-----------|

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

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

| | Quarter Ended | | | |
|--|------------------------------|-------------------------|------------------------------|---------------------------------------|
| | September 30, 2005 RMB | June 30, 2006 RMB | September 30, 2006 RMB | September 30, 2006 USD (Note 1) |
| Revenues: | | | | |
| Online game services | 372,681,557 | 486,006,106 | 467,910,918 | 59,199,256 |
| Advertising services | 73,395,974 | 68,763,795 | 83,359,202 | 10,546,458 |
| Wireless value-added services and others | 16,513,205 | 20,507,390 | 20,632,782 | 2,610,423 |
| Total revenues | 462,590,736 | 575,277,291 | 571,902,902 | 72,356,137 |
| Business taxes: | | | | |
| Online game services | (12,298,491) | (16,038,201) | (15,441,061) | (1,953,576) |
| Advertising services | (6,238,658) | (5,844,923) | (7,085,532) | (896,449) |
| Wireless value-added services and others | (609,447) | (763,300) | (771,139) | (97,563) |
| Total business taxes | (19,146,596) | (22,646,424) | (23,297,732) | (2,947,588) |
| Net revenues: | | | | |
| Online game services | 360,383,066 | 469,967,905 | 452,469,857 | 57,245,680 |
| Advertising services | 67,157,316 | 62,918,872 | 76,273,670 | 9,650,009 |
| Wireless value-added services and others | 15,903,758 | 19,744,090 | 19,861,643 | 2,512,860 |
| Total net revenues | 443,444,140 | 552,630,867 | 548,605,170 | 69,408,549 |
| Cost of revenues: | | | | |
| Online game services | (37,028,524) | (43,479,571) | (47,833,799) | (6,051,847) |
| Advertising services | (21,393,626) | (31,587,268) | (33,447,437) | (4,231,710) |
| Wireless value-added services and others | (14,108,027) | (20,203,005) | (19,179,820) | (2,426,597) |
| Total cost of revenues | (72,530,177) | (95,269,844) | (100,461,056) | (12,710,154) |
| Gross profit (loss): | | | | |
| Online game services | 323,354,542 | 426,488,334 | 404,636,058 | 51,193,833 |
| Advertising services | 45,763,690 | 31,331,604 | 42,826,233 | 5,418,299 |
| Wireless value-added services and others | 1,795,731 | (458,915) | 681,823 | 86,263 |
| Total gross profit | 370,913,963 | 457,361,023 | 448,144,114 | 56,698,395 |

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

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NETEASE.COM, INC.

RECONCILIATIONS TO UNAUDITED STATEMENTS OF OPERATIONS**NON-GAAP GROSS PROFIT, TOTAL OPERATING EXPENSES, NET PROFIT AND EARNINGS PER SHARE EXCLUDING SHARE-BASED COMPENSATION EXPENSE**

| | Quarter Ended | | | |
|--|---------------|---------------|---------------|---------------|
| | June 30, | | | |
| | September 30, | | September 30, | September 30, |
| | 2005 | 2006 | 2006 | 2006 |
| | RMB | RMB | RMB | USD (Note 1) |
| <u>Gross Profit</u> | | | | |
| GAAP gross profit | 370,913,963 | 457,361,023 | 448,144,114 | 56,698,394 |
| Add: share-based compensation cost under cost of revenues | | 4,345,487 | 4,184,265 | 529,386 |
| Non-GAAP gross profit | 370,913,963 | 461,706,510 | 452,328,379 | 57,227,780 |
| <u>Operating expenses</u> | | | | |
| GAAP operating expenses | (94,748,307) | (134,311,610) | (131,488,860) | (16,635,736) |
| Add: share-based compensation cost | | | | |
| - Selling and marketing expenses | | 5,431,785 | 5,406,776 | 684,055 |
| - General and administrative expenses | | 9,521,066 | 9,534,605 | 1,206,301 |
| - Research and development expenses | | 6,947,697 | 6,863,866 | 868,404 |
| Non-GAAP operating expenses | (94,748,307) | (112,411,062) | (109,683,613) | (13,876,976) |
| <u>Net profit</u> | | | | |
| GAAP net profit | 258,642,366 | 314,110,189 | 314,779,881 | 39,825,390 |
| Add: share-based compensation cost | | 26,246,035 | 25,989,512 | 3,288,147 |
| Non-GAAP net profit | 258,642,366 | 340,356,224 | 340,769,393 | 43,113,537 |
| <u>Earnings per share, diluted</u> | | | | |
| GAAP earnings per ADS, diluted | 1.79 | 2.23 | 2.26 | 0.29 |
| Add: Adjustment for dilutive impact of share based compensation cost | | 0.19 | 0.19 | 0.02 |
| Non-GAAP earnings per ADS, diluted | 1.79 | 2.42 | 2.45 | 0.31 |

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Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00 = RMB7.9040 on September 30, 2006 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: Effective from March 27, 2006, the Company changed its ADR to ordinary share ratio from one ADR for every 100 ordinary shares to one ADR for every 25 ordinary shares. The basic and diluted earnings per ADR and the basic and diluted weighted average number of ADSs outstanding for the comparative period ended September 30, 2005 have been restated to conform to the current ADR ratio for the period ended September 30, 2006 accordingly.