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NETEASE COM INC  
Form 20-F/A  
December 29, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Amendment No. 1  
to  
FORM 20-F/A

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 333-11724

NETEASE.COM, INC.

-----  
(Exact name of Registrant as specified in its charter)

N/A

-----  
(Translation of Registrant's name into English)

Cayman Islands

-----  
(Jurisdiction of incorporation or organization)

Suite 1901, Tower E3  
The Towers, Oriental Plaza, Dong Cheng District  
Beijing 100738, People's Republic of China

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(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

NONE

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Securities registered or to be registered pursuant to Section 12(g) of the Act.

Name of each exchange and Title of each class on which registered:  
American Depositary Shares, each representing 100 ordinary shares, par value  
US\$0.0001 per share, Nasdaq National Market

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(Title of Class)

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Securities for which there is a reporting obligation pursuant to Section 15(d)  
of the Act.

NONE

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(Title of Class)

Indicate the number of outstanding shares of each of the issuer's  
classes of capital or common stock as of the close of the period covered by the  
annual report: 3,100,162,536 ordinary shares, par value US\$0.0001 per share.

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes     No

Indicate by check mark which financial statement item the registrant  
has elected to follow:

Item 17     Item 18

EXPLANATORY NOTE

This amendment no. 1 on Form 20-F/A hereby amends Item 4 of  
NetEase.com, Inc.'s annual report on Form 20-F for the fiscal year ended  
December 31, 2002, which was filed on June 27, 2003. This amendment no. 1 is  
being filed for the purpose of providing additional details to our disclosures  
in the original report pursuant to comments we received from the Staff of the  
U.S. Securities and Exchange Commission in connection with its review of our  
periodic filings. This amendment no. 1 is not intended to revise other  
information presented in our annual report on Form 20-F for the fiscal year  
ended December 31, 2002 as originally filed and all such other information in  
the original filing, which remains unchanged.

This amendment no. 1 on Form 20-F/A does not reflect events occurring  
after the filing of the original Form 20-F and does not modify or update the  
disclosure therein in any way other than as required to reflect the amendments  
discussed above. As a result, this amendment no. 1 to the annual report on Form  
20-F continues to speak as of June 27, 2003.

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FORWARD-LOOKING INFORMATION

## Edgar Filing: NETEASE COM INC - Form 20-F/A

This amendment no. 1 on Form 20-F/A 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 we will not be able to continue to successfully monetize the user base of the NetEase Web sites and that our e-commerce and other fee-based services revenues will not continue to grow;
- . the risk that the current popularity of short messaging services (SMS) in China will not continue for whatever reason, including SMS being superseded by other technologies for which we are unable to offer attractive products and services;
- . the risk that we may not be able to continuously develop new and creative online services;
- . the risk that the online game market will not continue to grow or that we will not be able to maintain our position in that market;
- . the risk that the online advertising market in China will not continue to grow and will remain subject to intense competition;
- . the impact of the outbreak in China of severe acute respiratory syndrome, or SARS, on our business and results of operations;
- . the risk that we will not be able to control our expenses in future periods;
- . the possibility that our company and our board of directors have not implemented effective or complete steps to ensure that the circumstances which led to the restatement of our financial statements for the year ended December 31, 2000 will not recur;
- . our ability to develop and implement additional operational and financial systems to manage our operations;
- . governmental uncertainties, general competition and price pressures in the marketplace;
- . uncertainty as to future profitability and the risk that security, reliability and confidentiality concerns may impede broad use of the Internet and e-commerce and other services; and
- . other risks outlined in our filings with the Securities and Exchange Commission, including our registration statement on Form F-1, as amended.

All forward-looking statements in this amendment no. 1 on Form 20-F/A are made as of the date of the filing of the original Form 20-F, based on information available to us as of that date, and we assume no obligation to update or revise any of these forward-looking statements even if experience or future changes show that the indicated results or events will not be realized.

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## PART I

### Item 4. Information on the Company

#### A. History and Development of the Company

Our business was founded in June 1997, and we began offering search services and free Web-based e-mail starting mid-1997 and early-1998, respectively. In mid-1998, we changed our business model from a software developer to an Internet technology company and commenced developing the NetEase Web sites. In July 1999, we began to offer e-commerce platforms and to provide online shopping mall and other e-commerce services in China through Guangzhou NetEase Computer System Co., Ltd. ("Guangzhou NetEase"), a related party. In 2001, we also began focusing on fee-based premium services and online entertainment services, including wireless value-added services, online games, premium e-mail services and other subscription-type products. Our focus on these services continued throughout 2002.

In connection with the restructuring of our operations which is discussed in Item 7.B. "Major Shareholders and Related Party Transactions--Related Party Transactions" of our annual report on Form 20-F, NetEase.com, Inc. was incorporated in the Cayman Islands on July 6, 1999 and operates under the Cayman Islands Companies Law (2003 Revision). Our principal place of business was 15th Floor, North Tower, Beijing Kerry Centre, No. 1 Guang Hua Road, Chao Yang District, Beijing, People's Republic of China until January 13, 2003 when we moved to Suite 1901, Tower E3, The Towers, Oriental Plaza, Dong Cheng District, Beijing, People's Republic of China. Our telephone number is (86-10) 8518-0163. Our agent for service of process in the United States is CT Corporation System, 111 Eighth Avenue, New York, New York 10011.

In July 2000, we completed the initial public offering of our American Depositary Shares, representing our ordinary shares, and listed those securities on the Nasdaq National Market.

Our principal capital expenditures for 2002 consisted of computer equipment as well as software for a total of approximately RMB12.6 million (US\$1.5 million). Our principal capital expenditures for 2000 and 2001 also consisted of computer equipment as well as software for a total of RMB34.0 million (US\$4.1 million) and RMB21.1 million (US\$2.5 million), respectively.

We have spent approximately RMB4.3 million (US\$0.5 million) from January 1, 2003 until March 31, 2003, principally for purchases of additional computer equipment in order to accommodate the expected increase in traffic on the NetEase Web sites and our online game servers. Our capital expenditure plans for the remainder of 2003 have not yet been fixed, but we expect to spend an additional approximately RMB16.4 million (US\$2.0 million), primarily for further purchases of additional computer equipment in order to accommodate the expected increase in traffic on the NetEase Web sites and our online game servers. Capital expenditures in 2003 have been, and are expected to continue to be, funded through operating cash flows and through our existing capital resources.

#### B. Business Overview

Through our subsidiaries and contracts with our affiliates Guangzhou NetEase and Beijing Guangyitong Advertising Co., Ltd. ("Guangyitong Advertising"), we operate a leading interactive online and wireless community in China and are a major provider of Chinese language content and services through our Internet Portal, Wireless Business and Online Games offerings.

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Our business was founded by William Lei Ding, our Chief Architect and one of our directors, in June 1997. Mr. Ding owns 100% of our largest shareholder, Shining Globe International Limited, and 80% of Guangzhou NetEase. The other 20% of Guangzhou NetEase is owned by Bo Ding, the brother of William Lei Ding. Guangzhou NetEase has obtained approval from the Guangzhou telecommunications administrative authorities to provide Internet content services, and its 80% owned subsidiary, Guangyitong Advertising, holds a license to operate an advertising business. The other 20% of Guangyitong Advertising is owned by Bo Ding.

We conduct our business in China solely through our wholly owned subsidiaries, NetEase Information Technology (Beijing) Co., Ltd. ("NetEase Beijing"), NetEase Information Technology (Shanghai) Co., Ltd. ("NetEase Shanghai"), NetEase Interactive Entertainment Ltd. and Guangzhou NetEase Interactive Entertainment Limited.

Under current Chinese regulations, there are limitations on the percentage interest foreign companies may have in value-added telecommunications businesses in China, which include the operation of Internet content provision businesses and wireless value-added services such as SMS. In addition, the operation by foreign or foreign-invested companies of advertising businesses in China is subject to government approval. Because of these restrictions, NetEase.com is not permitted directly to wholly own an Internet content provider, wireless value-added services provider or advertising business. NetEase.com has therefore entered into a series of agreements with Guangzhou NetEase and Guangyitong Advertising. Under these contracts, we provide our Internet and wireless value-added applications, services and technologies and advertising services to Guangzhou NetEase and Guangyitong Advertising, and they operate the NetEase Web sites and the online advertising business. For more information on these agreements, see the section entitled "Related Party Transactions" of our annual report on Form 20-F. We do not have any direct ownership interest in Guangzhou NetEase or Guangyitong Advertising.

Under our agreements with Guangzhou NetEase, we have agreed to pay the operating costs of Guangzhou NetEase. Under our agreements with Guangyitong Advertising, we have agreed to provide performance guarantees and guarantee loans for working capital purposes to the extent required by Guangyitong Advertising for its operations. Both Guangzhou NetEase and Guangyitong Advertising are prohibited from incurring any debt without our prior approval.

The following diagram shows the current group structure of our subsidiaries and affiliated companies:

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[Diagram illustrating ownership structure of NetEase.com and contractual relationships among NetEase.com's subsidiaries and affiliates]

Our innovative communities and personalized premium services, which allow users to interact with other community members, have established a large and stable user base for our Internet portal business, and more recently, for our wireless value-added services and online games businesses.

The Internet portal business, which is conducted through the NetEase Web sites, provides Internet users with Chinese language online services centered around content, community and e-commerce. In particular, the NetEase content channels offer users an extensive range of local, regional and

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international Chinese language content, Web-based communication services and sophisticated search capabilities and provide a destination for Chinese Internet users to identify and access resources, services, content and information on the Internet. Registered community members can personalize their online experience by publishing their own content and interacting with other users that have similar interests. Under the NetEase and 163.com brands, we provide various free services, including Chinese language-based e-mail, online chat rooms and discussion forums.

In addition, the NetEase wireless value-added services offer users timely information (such as

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news and stock quotes), community interaction and games via SMS. Our online games provide community and entertainment via multi-player online role-playing games, in which users can simultaneously connect and interact on a massive scale.

We believe that demand for our services is growing as the number of users of Internet portals, wireless value-added services and online games in China increases. Furthermore, the NetEase Web sites' market position as one of the leading destinations for such users offers our online advertisers, e-commerce vendors and other partners such as mobile phone operators, value-added service providers and online game operators a strong marketing platform and access to this large and growing market of Chinese online consumers. The monthly average daily page views of the NetEase Web sites for the month ended May 31, 2003 exceeded 280 million, and as of May 31, 2003, those sites had registered approximately 120 million registered accounts.

Generally, we price our services as follows:

Service	Pricing
-----	-----
Basic Services, including:	Free of charge
. content services (such as news, local information, finance and weather);	
. chat rooms;	
. basic e-mail services;	
. instant messaging;	
. classified ads;	
. Web directories;	
. Web searching; and	
. online shopping services.	
-----	-----
Wireless Value-Added Services, including:	Per use basis (ranges from RMB0.10 to use)
. news and information;	or
. community;	Monthly subscription basis (ranges from RMB30.00 per month)
. multi-media downloads; and	
. Internet related services.	
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Other Fee-Based Premium Services, including:	Monthly subscription basis (ranges from RMB45.00 per month)
. premium e-mail services;	

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- . premium personals;
- . premium matchmaking;
- . premium clubs;
- . personal homepages; and
- . electronic greeting cards.

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Online Games, including:	Per hour basis (ranges from RMB0.40 to
. Westward Journey Online 2.0; and	
. PristonTale 2.0.	

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Advertising Services, including:	Varies depending on service. Basis in
. banner advertising;	the advertisement appears on the Web p
. direct e-mail; and	of times it appears in Web pages viewe
. special events.	and number of users that perform a spe
	through the advertisement.

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### Our Business Strategy

With our strong focus on the Chinese domestic market, we aim to have the NetEase Web sites become the leading online network in China. Key strategies for achieving our goal are to:

Expand Our Fee-Based Value-Added Services. We believe that Chinese Internet users have started to understand the benefits of fee-based value-added services. Accordingly, we have introduced a wide variety of such services, including wireless value-added services, online games and premium e-mail, many of which are targeted at the large portion of our registered user base which is under the age of 25. We believe that our concerted effort to capture a portion of this market as it first emerges, combined with our strong background in developing Internet technologies, will enable us to offer services which are valued by our users and establish our company as a reliable, secure and innovative online value-added service provider in the minds of China's Internet users. Moreover, we intend to continuously refine and improve these services, while at the same time looking for additional market opportunities and developing new services to address them. We will also strive to quickly familiarize the large user base of the NetEase Web sites with each of these services as they are introduced through outdoor advertising, notices on the NetEase Web sites and other promotional activities and thereby attempt to achieve a critical mass of users which we hope will create significant economies of scale.

Continue to Develop User-Friendly Internet Applications, Services and Technologies for the Chinese Market. We intend to continue our focus on developing user-friendly technologies for the Internet industry in China. We will adapt and modify existing technologies for Chinese language-based Internet applications as well as develop our own proprietary Chinese language Internet applications, such as our online games. We plan to continue to enhance our platforms with user-friendly interfaces and with easy to understand user instructions. While the market in China is not yet mature enough to allow the widespread adoption of broadband Internet services and next generation wireless technologies, we continue to explore ways in which we can utilize these technologies to increase the number of our users. We employed approximately 220 technology and product development professionals as of May 31, 2003.

Enrich, Expand and Personalize NetEase Content. The NetEase Web sites

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contain content from approximately 100 local and international content providers, including Xinhua News Agency, Chinanews.com, Beijing Daily, Nanfang Weekend, Yangcheng Night Newspaper, Guangzhou Daily, China Daily, People's Daily, China Youth Daily, and Reuters. To expand our channel offerings, we are working with vertical portal developers and purchasing or licensing existing content from traditional media providers. We intend to continue to offer content that will be more tailored for and relevant to our users' daily lives. We believe this will:

- . further differentiate the NetEase Web sites from competing Web sites and enhance our competitive position;
- . provide users with a more customized, comprehensive and satisfying Internet experience; and
- . increase the number of visits to the NetEase Web sites and the length of time each user stays on those sites.

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Expand the Number of Our Registered Users and Registered Community Members. We believe that a Web site must maintain a critical mass of users in order to generate online advertising, e-commerce and fee-based services revenues. Therefore, we strive to keep the NetEase Web sites in their position as one of the top three Web sites in China in order to achieve our goal of converting our registered users into paying customers. To expand the number of registered community members, we plan to enhance the quality of our community services and introduce new applications, services and technology for our online community that will make the Internet in China an increasingly important medium for exchanging ideas. We plan to leverage our technology and Web-based products to increase the NetEase community.

Expand Our E-commerce Services. We believe that a growing number of consumers in China will look to the Internet as an alternative source of commerce in the future. We have established an online shopping mall with 13 merchants as of May 31, 2003. We will build upon this experience and our registered users and registered community members to actively develop and pursue e-commerce opportunities. We intend to continue partnering with e-commerce merchants by leveraging our user profile information, which allows them to market products to specific demographic groups, and using our registered user database to develop direct marketing opportunities.

Expand the Base of Online Advertisers on Our Network. Online advertisers on the NetEase Web sites have traditionally consisted primarily of merchants from the information technology and telecommunications industries as well as an increasing number of advertisers from "traditional" industries such as consumer products and media. However, in recent quarters, advertisers in a broader range of industries have begun to advertise online, and we intend to encourage this trend by attracting premier online advertisers through promoting our brand name and providing attractive solutions to online advertisers. We will continue to promote the Internet as an alternative method for advertisers to reach end users through integrated marketing campaigns using banner advertising, direct e-mail, interactive media-rich Web sites, special events, games and contests and other formats and techniques. In addition, we intend to continue to use third party advertising networks to increase the NetEase online advertiser base and improve our ability to collect and correlate information regarding our users and their habits, interests and related items to the extent permitted by law.

Our Products and Services



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As discussed above, our basic service offerings on the NetEase Web sites include:

- . content services (such as news, local information, online entertainment, finance and weather);
- . chat rooms;
- . basic e-mail services;
- . instant messaging;
- . community forums;
- . basic matchmaking;
- . basic personals;
- . basic alumni directory;
- . basic clubs;
- . classified ads;
- . Web directories;
- . Web searching; and
- . online shopping services.

These basic services are available without charge to our users. We generate revenue from our:

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- . wireless value-added services and other premium value-added services, such as Web page hosting, premium email services, premium personals, premium matchmaking, premium alumni directories, premium clubs, personal homepages, and electronic greeting cards;

- . online games; and

- . advertising services.

### The NetEase Web Sites

The Internet portal business, which is conducted through the NetEase Web sites, offers Chinese Internet users a network of Chinese language-based online content channels, community products, e-commerce services and other Web-based applications and services to enhance their Internet experience. The NetEase Web sites offer content channels, a full text Chinese language search engine, a Web directory, e-mail, Web hosting, electronic greeting cards, dating services and community tools. We also provide e-commerce services that allow vendors to sell their products online through our online shopping mall. Our content, community and e-commerce services are all designed with user friendly interfaces and easy to understand instructions.

### Our Members

The NetEase Web sites have registered and unregistered users. Any user may visit the NetEase Web sites without registering. Only registered users can use our personalized services such as our free e-mail system and instant messaging, our fee-based premium services such as our premium e-mail and dating services. The NetEase users provide us with valuable demographic and preference information that will allow us to target audiences with relevant online advertising.

### Our Content

The NetEase Web sites' homepage provides a destination for Chinese Internet users to identify and access resources, services, content and

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information on the Internet. The NetEase Web sites aggregate, organize and deliver information to meet the needs of Internet users in China. Our media channels provide users with an efficient and easy way to explore and utilize a wealth of information and content organized around a variety of topics. Our content distribution platform enables the NetEase Web sites to offer in-depth local content as well as a variety of locally relevant regional and international content. We do not produce our own content for the NetEase Web sites, but rather obtain content from our content partners. See page 13 of this amendment no. 1 to our annual report on Form 20-F for a discussion of the terms of the agreement with our content providers.

We believe that our broad and relevant content offering increases the number of visits and the amount of time our users spend on the NetEase Web sites. We adopt a significant amount of user-generated content from the community forums on the NetEase Web sites. We believe that this user-generated content is highly effective in maintaining user interest and ensuring repeat visits to the NetEase Web sites.

The NetEase Web sites currently include 18 media channels in the following categories:

- . News
- . Jobs and careers
- . Information technology
- . Sports
- . Culture
- . Education
- . Games
- . Female
- . Travel

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- . Finance
- . Entertainment
- . Mobile phone
- . Real estate
- . Automobiles
- . Guangdong Local
- . Health
- . Lifestyle
- . Shanghai Local

The NetEase Web sites also include several specialty content channels such as Astrology, Jokes, Flash Cartoons and mini-sites for Movies and Concerts which provide even more variety of content to our users.

### Our Community

The NetEase Web sites have established a large online community member base as a result of our leading online community technology. We launched what we believe to be one of the first online communities in China in December 1998. Users can register with us online to interact with other registered community members. We believe that as users become more involved with our online community, they will return to the NetEase Web sites frequently.

NetEase users can interact through a variety of community products and services. We offer many products and services free of charge. They include:

- . E-mail. Our technology and services provide registered users with a free Web-based e-mail service which supports both the Chinese and English languages. Registered users can access and send e-mail through their Web browsers or through the POP3 and SMTP standards, which allow users to handle e-mails on their own e-mail applications without opening their browsers. The free Web-based e-mail service also includes the convenience of an address book to maintain user contact lists online, and by paying a fee, users can upgrade this service and receive anti-virus and anti-spam protections and extra memory storage.

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We also offer a separate fee-based premium e-mail service which is described below.

- . Online Community. We offer NetEase registered community members over 2,000 community forums where they can post messages and articles for viewing by other registered community members and other users. Due to regulatory issues, we no longer allow users to create their own forums in addition to the ones we offer. The NetEase online communities are hosted by volunteers, who are chosen by us based on their contributions to the communities. The NetEase community volunteers monitor our community forums and select appropriate articles for posting. In addition, they monitor the personal homepages hosted by the NetEase Web sites.
- . Instant Messaging. We offer NetEase registered users a communications platform to notify their online friends and other users with similar interests when they are online and to send and receive text messages seen by both parties nearly instantaneously, allowing NetEase registered users to participate in real-time dialogues.
- . Chat. Our chat services allow NetEase registered users to interact in real-time groups or one-on-one discussions. Unlike hyper text markup language, or HTML, our Java-based chat technology allows users to participate in chats without downloading chat software. The NetEase chat rooms are arranged around topics of interest including, among others, relationships and dating, campus life and technology. Registered users can also create their own personal chat rooms.

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- . Voting System. We conduct numerous polls on various social, cultural and other topics to provide our registered users with the opportunity to express their views and also to learn about the opinions of other Internet users.

We also offer these additional fee-based services:

- . Premium E-mail Service. In November 2001, we began offering value-added e-mail services for both individuals, known as VIP, and corporations which provide subscribers with the latest anti-virus and anti-spam filtering capabilities. The VIP e-mail service also includes enhanced security features as well as several convenient online and offline payment methods and 24-hour customer support. As of May 31, 2003, we had more than 190,000 VIP e-mail subscribers. In response to limited market interest, we discontinued our premium corporate e-mail activities in October 2002.
- . Web Page Hosting. In March 2001, we introduced a fee-based premium Web page hosting service which allows subscribers to create and maintain personal homepages. This service was re-launched in March 2002 with enhanced features and, thereafter, renamed "Personal Space." The NetEase personal homepages create a Web-based community for Internet users to express themselves, to share ideas, interests and expertise, and to publish personal content accessible by other users with common interests. While we believe most of the NetEase personal homepages are of interest to a small circle of friends and families, there is a core group of users who create homepages with content having broader appeal. Traffic comes from both inside our network of Web sites and from non-registered users visiting from outside. Non-registered users typically find registered users' personal homepages through search

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engines. With this fee-based premium service, individual users are able to choose from service packages available at different rates to improve the overall quality of their personal homepages.

Until December 2001, we also offered free computer storage space for personal homepages. We have allowed free personal homepages which were established before that date to remain in existence, though we actively encourage those users to transition their homepages to our premium service. Our premium Web page hosting service provides a more reliable platform as well as improved customer service in comparison to our prior free service. Users of our premium Web page hosting service also benefit from greater storage space, a more secure and faster server, and 24-hour customer support. As of May 31, 2003, we had approximately 27,000 personal homepages which were established under our non-fee based service and more than 74,000 personal homepages which were established under our premium service.

- . Love. Love is an online friend-finder, and we believe it is one of the largest in China with more than 7 million registered members and more than 200,000 paid subscribers. With this service, registered users post their own profiles for periods of two years or more, including photos, background, interests and contact details, and interested parties contact them directly. Our "V member" service provides enhanced features such as complete member profile access and search capability, customizable personal homepage design, front-page photo postings and publishing of detailed friend-find requirements.
- . Dating. A portion of the NetEase Web sites serves as a dedicated dating center where subscribers can make new friends and find someone to go out on dates or do other social activities, such as hiking, sports, games and movies. With this service, registered users post

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their dating announcements, along with their background and other information, and interested parties can either search online or contact our company through our SMS service to obtain more details about the user. We will then send an SMS message to the user to confirm that they want to have a date with the interested party. We charge a fee for each posting by a male user, but female users may post messages for free. During May 2003, the dating service attracted more than 200,000 new registered users.

- . Premium Electronic Greeting Cards. We believe that we were the first Internet company to offer Chinese Internet users free online greeting cards in Chinese. Subsequently, we began offering premium fee-based electronic greeting cards with enhanced features and no advertisements in March 2002, and we ceased offering free electronic greeting cards. Our greeting cards have different designs for various occasions, including New Year's Day, Chinese New Year, Christmas, birthdays, Valentine's Day, and other celebrations. We make new designs available on a regular basis. Users pay a monthly membership fee for this service of RMB10 which entitles them to send an unlimited number of cards per month. As of May 31, 2003, we had over 125,000 electronic greeting card subscribers.

### Our E-commerce Services

We believe e-commerce will become a rapidly growing sub-sector of China's Internet market, despite the fact that there are a number of obstacles that need to be overcome. These obstacles include a low credit card penetration rate,

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perceived lack of secure online payment systems and the lack of reliable and efficient product distribution networks. However, we believe that these obstacles will be overcome in time, and that e-commerce will generate significant revenues in the future. For example, as discussed below in "Online Games," we introduced a prepaid debit point card in connection with the introduction of our first massively multi-player online game, which we expect will facilitate the usability and growth of all of our fee-based premium services.

Our e-commerce services focus on partnering with quality vendors to provide the convenience of online shopping to users. Currently, those vendors support their own e-commerce platforms which appear on the NetEase online shopping mall Web site that we maintain. Previously, we also helped those vendors with their e-commerce platforms. As of May 31, 2003, the mall hosted 13 vendors.

Our co-branded auction and trading Web site with EachNet terminated in July 2002. Subsequently, we offered free auction services on the NetEase Web sites but discontinued those services in June 2003.

### Web Directory, Web Search and Classified Ads

The NetEase Web sites also provide a Web directory, Web search and classified ad services. Our Web directory is based on an open architecture system with over 3,000 volunteer editors working to build a categorized directory of Chinese Web sites. Our Web search is now powered by Baidu, a local Chinese search technology provider. We currently sell classified advertisements and key words exclusively through various local agents throughout China.

### Wireless Value-added Services

SMS. In conjunction with China Mobile, in January 2001, we began offering value-added services through short messaging services (SMS) to allow users to send and receive messages from the Internet. Subsequently, we entered into a similar arrangement with China Unicom. We charge a fee for these services which are added onto the user's China Mobile or China Unicom bill and subsequently

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collected from the user and paid to us by the applicable wireless operator. These new services have experienced strong growth since their launch. At December 31, 2002, we had more than 17 million registered accounts and sent more than 1.6 billion short messages for the year. We expect that the usage of this service will continue to increase in the near term as the popularity of SMS increases but that there will be a transition to next generation technologies such as multi-media messaging services as they become more widely available, as discussed in next subsection below.

Currently, most of our wireless value-added services are provided to users in the form of SMS. NetEase offers over 200 different SMS and subscription packages with pricing between RMB0.10 to RMB2.00 per SMS message or between RMB5.00 to RMB30.00 per subscription per month. We, through Guangzhou NetEase, receive a percentage of this amount from China Mobile and China Unicom, which they bill and collect on our behalf. During the first nine months of 2003 we received between 72% and 79% of the amounts collected each month by China Mobile and China Unicom from mobile phone users for our wireless value-added services.

Our SMS services and subscription packages allow users, for example, to receive news and information such as stock quotes and e-mails, download ring tones and logos for their mobile phones and participate in matchmaking communities and interactive games. We utilize content from our Internet portal

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(both user-generated and from our content partners) with our applications developed in-house to offer this wide variety of products and services. Our products and services can be generally classified into four main categories, namely, news and information subscription, community, Internet-related products and services and multi-media downloading:

News and Information Subscription -----	Community -----	Internet-related -----	Multi-Media Downloading -----
. Current news	. Matchmaking	. E-mail notification	. Ring tones
. Financial news	. SMS girlfriend	. E-card notification	. Logos
. Sports news	. SMS pet	. Instant messaging	. Screensave
. TV guide	. Educational products		
. Weather forecast	. Games & quizzes		

**WAP and Other Emerging Mobile Phone Technologies.** We are also focusing on developing products and services that can be utilized in emerging mobile phone technologies. For example, beginning in late 2002, Guangzhou NetEase derived wireless value-added services revenue under separate cooperative arrangements with China Mobile and China Unicom by providing wireless application protocol (known as WAP) services to mobile users with phones using the GPRS (General Packet Radio Service) and CDMA1X technology standards. More recently, in April 2003, we started to derive revenue from activities related to multi-media messaging services (known as MMS) under a cooperative agreement with China Mobile. We expect that our revenue derived from new services we develop that are compatible with these and other new mobile phone technologies will represent a larger portion of our wireless value-added services revenue in the future as these new technologies becomes more widely available.

### Online Games

**Massively Multi-player Online Role-Playing Games.** In 2001, we began offering massively multi-player online role-playing games. As part of this initiative, we acquired technology assets from Guangzhou Tianxia Technology Co. Ltd., a China-based game software developer which we believe was the first company to introduce a domestically developed massively multi-player online role-playing game to the China market. We launched our first massively multi-player online role-playing game, "Westward Journey Online," in December 2001. In connection with the introduction of this game, we introduced a prepaid debit point card which has facilitated the usability and growth of our online game services and, to a lesser extent, of our other fee-based value-added services. To address the difficulty of making online payments in China, users can buy this card at local stores and other locations in China. The points contained in the card can then be used to pay for our online services, such as playing time for online games. Subsequently, we launched "Westward Journey Online Version 2.0" and a massively multi-player online role-playing game licensed from a Korean company, "PristonTale," in August 2002. For the month of March 31, 2003, our online games had an average of 85,000 concurrent users and a total of 890,000 unique users.

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### Partnerships and Strategic Alliances

We have entered into partnerships and strategic alliances with companies that complement our products and services in a number of areas.

#### Content Partnerships and Alliances

With our content partnerships, our users have access to a broad offering of Chinese language content through the NetEase Web sites and our wireless value-added services. Our content partners display their content on one or more of the NetEase Web sites and media channels free of charge or in exchange for a share of revenue, a licensing fee, online advertising, access to original content produced by the NetEase community or a combination of these arrangements. We distribute this content through our content distribution system to Guangzhou NetEase, which determines the appropriate content to publish on the NetEase Web sites and to distribute to users of our wireless value-added services. Our content alliances are generally non-exclusive.

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### Payment Solutions

We have partnered with several domestic companies to facilitate e-commerce transactions, including China Merchants Bank, Capinfo (formerly China Information Highway Corporation), iPayment and ChinaPay. Through these partnerships, we can provide secure and reliable online payment solutions.

### The News Corporation

In connection with the issuance of our Series B preference shares, we entered into an agreement with News Digital Ventures, an affiliate of The News Corporation Limited, which provided for cooperation between us and The News Corporation. As part of the consideration for the issuance of our Series B preference shares, The News Corporation and its affiliates have agreed to provide us with on-air advertising and promotional inventory with a value of US\$5 million on The News Corporation's media properties, including Channel [V], ESPN Star Sports, Phoenix TV and STAR TV. As of May 31, 2003, we had used US\$3 million of the inventory and agreed to use the remaining inventory by March 28, 2004. In addition, The News Corporation and its affiliates have agreed to spend US\$5 million on online advertising on the NetEase Web sites. As of May 31, 2003, The News Corporation had used approximately US\$1 million of this advertising inventory and agreed to use the remaining amount by March 28, 2004. All other aspects of our strategic cooperation agreement with The News Corporation terminated in March 2003.

### Sales and Marketing

#### Sales Organization

We believe the growing number of Internet users in China represents an attractive demographic target for advertisers because it represents an affluent, educated and technically sophisticated market. To capitalize on this advertising opportunity, we established an advertising sales force in May 1999.

Guangyitong Advertising sells banner advertisements on the NetEase Web sites, including animated and interactive banner advertisements, button advertisements, sponsorships, text links as well as advertising on our electronic newsletters. In addition, we have been appointed by Guangzhou NetEase to solicit advertising customers outside of China for the NetEase Web sites. Together with Guangyitong Advertising, we had 49 advertising sales professionals

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located in Beijing, Shanghai and Guangzhou as of May 31, 2003. In addition, online advertising on the NetEase Web sites is also sold through online advertising sales networks and advertising agencies. We believe that our focus on widely-used services that are designed to appeal to a broad base of Internet users attracts a variety of blue chip advertisers, ranging from technology products to consumer brands (including increasingly Chinese companies). We intend to continue to attract online advertisers by promoting the NetEase brand name to potential advertisers. We also engage in providing cooperative promotional advertising solutions in which we act as the official sponsor or co-sponsor of special events or online content, such as Web sites that feature movies or television series, athletic events, music awards, charity concerts and industry exhibitions.

Furthermore, we perform analyses of our registered users' habits and preferences on a frequent basis and have used that information to tailor our advertising services. For example, we can deliver advertisements via electronic greeting cards to users who fit within certain criteria based on their user profile. By developing user profiles and user behavior analyses, we intend to increase our ability to target specific user groups and thereby identify users who are attractive to online advertisers.

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### Marketing

We employ a variety of traditional and online marketing programs and promotional activities to build our brand as part of our overall marketing strategy. In an effort to control our costs, we reduced the financial and other resources devoted to our marketing and branding efforts in 2001. However, we continue to build brand awareness through proactive public relations and traditional and online advertising, and during 2002, we conducted an increasing number of traditional marketing events promoting specific products and services, such as wireless value-added services, online games and other fee-based premium services. We plan to continue investing in various forms of marketing to further build awareness of our brand.

### Research and Development

We believe that an integral part of our future success will depend on our ability to develop and enhance our products and services. Our product development efforts and strategies consist of incorporating new technologies from third parties as well as continuing to develop our own proprietary technology in order to produce user-friendly Internet applications, services and technologies for the Chinese market.

We have utilized and will continue to utilize the products and services of third parties to enhance our platform of technologies and services to provide competitive and diverse Internet services to our users. We also have utilized and will continue to utilize third-party advertisement serving technologies in conjunction with our own proprietary software. In addition, we plan to continue to expand our technologies, products and services and registered user base through diverse online products and services developed internally. We will seek to continually improve and enhance our existing products and services to respond to rapidly evolving competitive and technological conditions. Two areas of particular focus are the development of our proprietary online games and our wireless value-added services.

### Infrastructure and Technology

Our infrastructure and technology have been designed for reliability,



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scalability and flexibility and are administered by our technical staff. The NetEase Web sites are made available primarily through network servers co-located in the facilities of China Netcom's Beijing affiliate (this was an affiliate of China Telecom until its reorganization) and China Telecom's Changzhou affiliate. As of May 31, 2003, there were 1,056 such co-located servers, operating with Web server software from Apache and Netscape. We lease dedicated lines with 900 megabits per second capacity from China Netcom's Beijing affiliate as well as shared lines from China Telecom's Changzhou affiliate.

We license and optimize StoryServer from Vignette Corporation to provide efficient and responsive management of the content on www.163.com, the main homepage of the NetEase Web sites. We also license NetGravity's advertisement serving technology to provide internal advertising inventory management, and we have developed our own advertisement tracking system.

Our Web directory is based on an open architecture system with over 3,000 volunteer editors. We use Oracle's database systems to manage our registered user database. NetEase has established a comprehensive user profile system, and we analyze user information on a weekly basis. We also deploy a single sign-on system that allows users to access all services within the NetEase Web sites. We intend to continue to use a combination of internally developed software products as well as third party products to enhance our Internet media services in the future.

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### Seasonality

Historically, advertising and e-commerce revenues followed the same general seasonal trend throughout each year with the first quarter of the year being the weakest quarter due to the Chinese New Year holiday and the traditional close of advertisers' annual budgets and the fourth quarter as the strongest. Although we have only limited historical data, usage of our wireless value-added services and online games has typically increased around the Chinese New Year holiday and other Chinese holidays, in particular winter and summer school holidays. Our holiday-related electronic greeting cards have been especially popular during those periods.

### Competition

A number of companies offer competitive products or services in China, our main operating market. These include Sina, Sohu, Tom.com, 263.net, Chinadotcom and 21cn.com.

We also face competition from U.S.-based portals such as Yahoo! and Yahoo! Chinese which have translated some of their content from the English language to the Chinese language. We expect that China's entry into the World Trade Organization, and the resulting gradual opening of its telecommunications sector, may facilitate more foreign participation in the Chinese Internet market. Many of these Internet companies have longer operating histories in the Internet market, greater name and brand recognition, larger customer bases and databases and significantly greater financial, technical and marketing resources than we have. The entry of additional, highly competitive Internet companies into the Chinese market would further heighten competition. Finally, we face competition from Web sites that operate outside our market and offer content in the English language, which may be attractive to a portion of Chinese Internet users.

Further, we face competition from other Web sites that offer online

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community products and from other e-commerce service providers servicing our market including Sina, Sohu, Tom.com and Tencent.com. Moreover, Sina, Sohu and Tom.com are major providers of wireless value-added services in the China market, and like our company, they also have partnership arrangements with both China Mobile and China Unicom, the two current mobile phone operators in China. Although the number of competitors for SMS services did not grow materially in 2002, there has been a recent consolidation in the industry, resulting in an overall strengthening of competition in 2003.

We are also encountering competition from companies offering massively multi-player online role-playing games that target the China market, such as Shanda Networking, Softworld, Joypark and Waei International (with whom we had a strategic partnership until March 2002). Additionally, the producers of traditional video game consoles, such as Sony's Play Station 2 and Microsoft's Xbox, offer massively multi-player games to their users, although the consoles and games have not yet been released in China. Some of our existing and potential competitors in these areas have significantly greater financial and marketing resources than we do.

In the future, we expect to face increased competition from new Internet media companies that choose to target general, special interest and/or demographic markets (such as vertical portals). We may encounter indirect competition from providers of Web-based software and other Internet related products. We also compete with traditional forms of media for advertising-related revenue. Further, we compete with domestic and multi-national Internet solutions providers. There can be no assurance that we will be able to compete successfully against our current or future competitors or that competition will not have a material adverse effect on our business, results of operations and financial condition.

We believe the principal competitive factors in the Internet market in China are:

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- . brand recognition;
- . user-friendliness;
- . focus on Internet users in China;
- . development of technology tailored for the Chinese Internet industry;
- . comprehensiveness, quality and responsiveness of products and services;
- . availability of targeted content; and
- . personalized experience and online community applications, services and technologies.

### Governmental Regulations

The telecommunications industry, including computer information and Internet access services, is highly regulated by the Chinese government. Regulations issued or implemented by the State Council, the Ministry of Information Industry, or the MII, and other relevant government authorities cover virtually every aspect of telecommunications network operation, including entry into the telecommunications industry, the scope of permissible business activities, interconnection and transmission line arrangements, tariff policy

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and foreign investment.

In March 1998, the National People's Congress approved a government restructuring plan that directed the MII to assume, among other things, the regulatory, administrative and other responsibilities of, and rights previously exercised by, the former Ministry of Posts and Telecommunications.

The MII, under the leadership of the State Council, is responsible for, among other things:

- . formulating and enforcing telecommunications industry policy, standards and regulations;
- . granting licenses to provide telecommunications and Internet access services;
- . formulating tariff and service charge policies for telecommunications and Internet access services;
- . supervising operations of telecommunications and Internet access service providers;
- . maintaining fair and orderly market competition among operators; and
- . managing the day-to-day administration of the national telecommunications sector.

In September 2000, China's State Council promulgated the Telecommunications Regulations, or the Telecom Regulations. The Telecom Regulations categorize all telecommunications businesses in China as either infrastructure telecommunications businesses or value-added telecommunications businesses, with Internet content provider (ICP) services and e-mail services classified as value-added telecommunications businesses. According to the Telecom Regulations, the commercial operator of such services must obtain an operating license. The Telecom Regulations also set forth extensive guidelines with respect to different aspects of telecommunications operations in China.

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In December 2001, in order to comply with China's commitments with respect to its entry into the WTO, the State Council promulgated the Administrative Rules for Foreign Investments in Telecommunications Enterprises, or the Telecom FIE Rules. The Telecom FIE Rules set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign invested telecom enterprise. Pursuant to the Telecom FIE Rules, foreign investors may now hold an aggregate of no more than 49% of the total equity in any value-added telecommunications business in China, subject to certain geographic limitations. This percentage ceiling is to be increased to 50% by the second anniversary of China's entry into the WTO.

In addition to the regulations promulgated by the central Chinese government, some local governments have also promulgated local rules applicable to Internet companies operating within their respective jurisdictions. In Beijing, where our head office is located, the Beijing Municipal Administrative Bureau of Industry and Commerce, or the Beijing AIC, has promulgated a number of Internet-related rules. In September 2000, the Beijing AIC invalidated a previously issued circular and adopted a new set of rules requiring owners of the domain names of commercial Web sites located within Beijing to conduct both a Web site name registration and a commercial Web site registration with the Beijing AIC. In March 2001, the Beijing AIC also promulgated the Online

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Advertising Tentative Administrative Measures requiring all ICPs within Beijing which provide online advertising services to obtain an advertising operating license. In addition, the Beijing AIC issued a circular requiring bulletin board services (BBS) providers to obtain approval from the Beijing AIC. Since these local rules or circulars promulgated by the Beijing AIC do not explicitly require a non-Beijing registered Internet company or a non-ICP company to comply with these rules or circulars and it is not clear under the rules that the NetEase Web sites are "located within Beijing," we believe that these local rules do not apply to Guangzhou NetEase and NetEase Beijing.

### Regulation of Internet Content Services; Publications

Subsequent to the State Council's promulgation of the Telecom Regulations in September 2000, MII formulated and implemented a number of Internet-related regulations, including but not limited to the Internet Information Service Administrative Measures, or the ICP Measures, the Internet Electronic Bulletin Board Service Administrative Measures, or the BBS Measures, and the Tentative Administrative Measures Concerning Internet Portals Carrying on the News Displaying Business, or the Internet News Measures. The ICP Measures require that commercial ICP operators must obtain an ICP license from the appropriate telecommunications authorities in order to carry on any commercial ICP operations within China. In addition, the ICP Measures also provide that ICP operators which operate in sensitive and strategic sectors, including news, publishing, education, health care, medicine and medical devices, must obtain additional approvals from the relevant authorities in charge of those sectors as well. The BBS Measures provide that any ICP operator engaged in providing online bulletin board services is subject to a special approval and filing process with the relevant government telecommunications authorities. The Internet News Measures require that any ICP operator engaging in any news displaying services must obtain approval for those services from the appropriate government news department.

The Ministry of Health and the State Drug Administration have also adopted regulations regarding the online dissemination of online health- or drug-related information. These regulations require that, among other things, medical, health and drug information must be scientific and accurate and the sources of the information must be identified. Web sites which have received approval to disseminate such information must also publish or reprint health policies, information on epidemics and major health-related incidents and other information in this area in accordance with law. Medical and drug-related advertisements published by such Web sites are also prohibited from exaggerating the efficacy or promoting the medical uses of the advertised products.

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In addition, the State News and Publication Bureau, or SNPB, is the government agency responsible for regulating publishing activities in China. On June 27, 2002, MII and SNPB jointly promulgated the Internet Publishing Tentative Administrative Measures, or the Internet Publishing Measures, which took effect on August 1, 2002. The Internet Publishing Measures require Internet publishers to secure approval from SNPB. The term "Internet publishing" is defined as an act of online dissemination whereby Internet information service providers select, edit and process works created by themselves or others (including content from books, newspapers, periodicals, audio and video products, electronic publications, etc. that have already been formally published or works that have been made public in other media) and subsequently post the same on the Internet or transmit the same to users via the Internet for browsing, use or downloading by the public.

Currently, the NetEase Web sites are operated by our affiliated company,

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Guangzhou NetEase Computer System Co., Ltd., or Guangzhou NetEase. To operate the NetEase Web sites in compliance with all the relevant ICP-related Chinese regulations, Guangzhou NetEase has successfully obtained an ICP license issued by the Guangdong Provincial Telecommunications Bureau dated as of December 14, 2000. On February 15, 2001, the News Office of the Beijing Municipal People's Government approved Guangzhou NetEase's application in respect of its news displaying services on the NetEase Web sites. Our current ICP license also authorizes Guangzhou NetEase to provide bulletin board services. As for special approvals for other online services, Guangzhou NetEase has submitted applications for online dissemination of health- and drug-related information and Internet publishing.

Under the relevant regulations, ICP operators and Internet publishers are prohibited from posting or displaying any content that:

- . opposes the fundamental principles determined in China's Constitution;
- . compromises state security, divulges state secrets, subverts state power or damages national unity;
- . harms the dignity or interests of the state;
- . incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- . sabotages China's religious policy or propagates heretical teachings or feudal superstitions;
- . disseminates rumors, disturbs social order or disrupts social stability;
- . propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes;
- . insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or
- . includes other content prohibited by laws or administrative regulations.

Failure to comply with this content censorship requirement may result in the revocation of ICP licenses and the closing down of the concerned Web sites. To ensure compliance with this regulatory requirement, Guangzhou NetEase has taken all reasonable steps to avoid displaying any of the prohibited content on the NetEase Web sites.

### Regulation of Advertisements

The State Administration of Industry and Commerce, or the SAIC, is the government agency responsible for regulating advertising activities in China. While there are no nation-wide uniform laws or regulations in China specifically governing online advertising businesses, certain local government authorities, such as the Beijing AIC, have issued a number of regulations governing online advertising businesses. The SAIC has not expressly asserted or issued any regulatory documents stating that the Internet is considered an advertising medium under its rules, nor has the SAIC extended its jurisdiction to online advertisements. However, we cannot predict what stance the SAIC or any other Chinese governmental agencies may adopt in the future.

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Guangyitong Advertising holds an advertising operating license and operates our online advertising business on an exclusive basis. If the SAIC were to treat our current technological service to Guangyitong Advertising as being an online "Advertisement Publisher", we would need to apply to the local SAIC to amend our business license to authorize us to conduct an online advertising business in accordance with the Administrative Regulations on Advertising and the Detailed Implementing Rules thereof. We cannot assure you that such application would be approved by the SAIC. Failure to obtain such approval may result in penalties including:

- . being banned from engaging in online advertising activities,
- . confiscation of illegal earnings and
- . fines.

On the other hand, if an application were approved by the SAIC and we were deemed to be an online "Advertisement Publisher," we would be held responsible for examining relevant documents and verifying the content of advertisements we post online.

### Regulation of E-Commerce

At present, there are no specific Chinese laws at the national level governing e-commerce or defining e-commerce activities, and no Chinese government authority has been designated to regulate e-commerce. There are existing regulations governing retail and auction businesses which require companies to obtain licenses in order to engage in these businesses. However, it is unclear whether these existing regulations will be applied to e-commerce. There is no assurance that the Chinese government will not, in the future, promulgate specific regulations governing e-commerce, designate a government agency to regulate e-commerce activities or apply existing retail and auction regulations to e-commerce activities, any of which events could restrict our business activities.

In addition, at least one provincial government has adopted regulations in this area, and other provincial or local governmental agencies may do so in the future. Specifically, in December 2002, Guangdong Province promulgated the Electronic Transactions Regulations which require electronic transaction service providers to obtain governmental approval and regulate electronic signatures, records and contracts. It is not entirely clear whether these regulations apply to Guangzhou NetEase, and, accordingly, we have not sought any approvals under these regulations. However, our ability to operate our business may be adversely affected if the Guangdong provincial authorities determine that the regulations are applicable to Guangzhou NetEase. Further, the adoption of multiple e-commerce regulations by different provincial or local agencies could have a material adverse effect on our business, particularly if such regulations are inconsistent with each other.

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### Regulation of Wireless Value-Added Services

Similar to e-commerce activities, there are no specific Chinese laws at the national level governing wireless value-added services, such as our services related to SMS, and no Chinese government authority has been designated to regulate these services. At the moment, most, if not all, providers of SMS-related services have obtained ICP licenses such as the ICP license which our affiliate, Guangzhou NetEase, possesses. However, we cannot be certain that

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an ICP license will be deemed sufficient by the relevant governmental authorities for the provision of this category of service, and it is possible that new national legislation might be adopted to regulate such services.

Moreover, one province has adopted regulations on a trial basis that require SMS providers to obtain licenses from or register with the local MII branch office before conducting SMS operations in that province. Due to the uncertainty surrounding the applicability of these regulations, we have not applied for such provincial license. If these regulations are determined to be applicable to our business and/or additional provincial or local regulations arise in this area, our business could be adversely affected, particularly if such regulations are inconsistent with each other or we cannot obtain the requisite approvals.

### Regulation of Online Games

On May 10, 2003, the Ministry of Culture promulgated the Internet Culture Administration Tentative Measures, or Internet Culture Measures, which will come into effect on July 1, 2003. The Internet Culture Measures require Internet content providers which engage in "Internet Culture Activities" to submit an application for approval by the Ministry of Culture by September 1, 2003. The term "Internet Culture Activities" includes, among other things, acts of online dissemination of "Internet Cultural Products," such as audio-visual products, gaming products, performances of plays or programs, works of art and cartoons, and the production, reproduction, importation, sale (wholesale or retail), leasing and broadcasting of Internet Cultural Products. In addition, these regulations require a separate review of the content of any online games which are imported into China.

We believe that our provision of online games will necessitate obtaining approval from the Ministry of Culture under the Internet Culture Measures and that any games which we import, such as PristonTale, will have to be reviewed. Because the Internet Culture Measures are so new and have yet to be implemented, we cannot be certain whether we can obtain such approvals or how long the application process will take. In addition, it has been reported that the SNPB will be adopting regulations affecting online games, and we cannot be certain when these regulations will become effective, what form they will take or how they will affect our business.

### Foreign Exchange Controls

Our Chinese subsidiaries are subject to various foreign exchange controls which are discussed in Item 10 in this Form 20-F.

### Intellectual Property and Proprietary Rights

We rely primarily on a combination of copyright laws and contractual restrictions to establish and protect our intellectual property rights. We require our employees to enter into agreements requiring them to keep confidential all information relating to our customers, methods, business and trade secrets during and after their employment with us. Our employees are required to acknowledge and recognize that all inventions, trade secrets, works of authorship, developments and other processes, whether or not

patentable or copyrightable, made by them during their employment are our property. They also sign all necessary documents to substantiate our sole and exclusive right to those works and to transfer any ownership that they may claim in those works to us.

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While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. Infringement or misappropriation of our intellectual property could materially harm our business. We own the intellectual property (other than the content) relating to the NetEase Web sites and the technology that enables on-line community, personalization and e-commerce services on those sites. We license content from various freelance providers and other content providers.

We have full legal rights over and have registered the following domain names with Network Solutions, Inc.:

- . www.netease.com;
- . www.163.com;
- . www.yeah.net;
- . www.126.com; and
- . www.nease.net.

China's trademark law adopts a "first-to-file" system for obtaining trademark rights. As a result, the first applicant to file an application for registration of a mark will preempt all other applicants. Prior use of an unregistered mark is generally irrelevant except for "well known" marks. Guangzhou NetEase and NetEase Beijing have successfully registered numerous trademarks with China's Trademark Office, including marks incorporating the words "NetEase" and "Yeah" in English and for marks for "NetEase" as written in Chinese in traditional and simplified Chinese characters. In addition, they have registered trademarks involving Chinese characters and phrases that have meanings relating to our Web pages, products and services, including our travel Web page, dating and friends matching services, chat services, online gaming and our search engine. Guangzhou NetEase has transferred all but two of those marks to us, and we will cause the remaining two marks to be transferred to us shortly. Guangzhou NetEase and NetEase Beijing also have applications pending for several other trademarks, and we will cause Guangzhou NetEase to transfer to us any of its newly registered trademarks. We may not be able to successfully defend or claim any legal rights in those trademarks that Guangzhou NetEase has registered but not yet transferred to us, and those trademarks for which applications have been made but for which the Trademark Office has not issued a registration certificate.

We have also registered a number of trademarks in Hong Kong incorporating the words "NetEase" in English and the marks for "NetEase" as written in Chinese in traditional and simplified Chinese characters. In addition, we have also filed similar trademark applications in the United States.

Many parties are actively developing and seeking patent protection for community, e-commerce and related Web technologies. We expect these parties to continue to take steps to protect these technologies, including seeking patent protection. There may be patents issued or pending that are held by others and that cover significant parts of our technology, business methods or services. For example, we are aware that a number of patents have been issued in areas of e-commerce, Web-based information indexing and retrieval and online direct marketing. Disputes over rights to these technologies are likely to



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arise in the future. We cannot be certain that our products do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others.

### Legal Proceedings

Beginning in October 2001, four substantially identical purported class action complaints alleging violations of the federal securities laws were filed in the United States District Court for the Southern District of New York naming our company, certain of our current and former officers and directors, and the underwriters of our initial public offering as defendants. In general, the complaints alleged, among other things, that (i) our initial public offering violated the U.S. securities laws because the financial statements accompanying the offering's registration statement misstated our revenue; and (ii) we committed securities fraud by materially misstating our revenue in our 2000 financial statements.

The parties to this litigation entered into a definitive settlement agreement to settle all claims, which was approved and declared final by the District Court on May 16, 2003. The aggregate settlement amount, which was paid to those persons who purchased our American Depositary Shares during the period from July 3, 2000 to August 31, 2001, was US\$4.35 million. This settlement has been reflect in our third quarter and full-year financial statements for 2002 as a one-time charge.

### C. Organizational Structure

The following table sets out the details of our subsidiaries:

Name -----	Country of Incorporation -----	Owners Inter -----
NetEase Information Technology (Beijing) Co., Ltd.	China	100
NetEase Information Technology (Shanghai) Co., Ltd.	China	100
NetEase (U.S.) Inc.	U.S.	100
NetEase Interactive Entertainment Ltd.	British Virgin Islands	100

NetEase Interactive Entertainment Limited also has a wholly owned subsidiary, Guangzhou NetEase Interactive Entertainment Limited.

Beijing NetEase Interactive Network Technology Co., Ltd., an 80% owned subsidiary, remained dormant since its establishment and was dissolved on October 11, 2002. In addition, NetEase (U.S.) Inc. was dormant in 2002, and we expect that it will remain so in the near-term.

### D. Property, Plant and Equipment

Our principal executive offices are currently located at Suite 1901, Tower E3, The Towers, Oriental Plaza, Dong Cheng District, Beijing, People's Republic of China 100738. We lease our principal executive offices at an effective annual rent of approximately US\$0.4 million (RMB2.9 million), including management fees, for 1,592 square meters under a lease that expires in May 2006. We also occupy 756 square meters under a lease in Shanghai that expires in December 2004. Guangzhou NetEase occupies a total of 2,200 square meters under leases that expire in February 2005 and February 2006, respectively. We also have a lease for an office in the United States located in Newark, California. This

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lease expires in October 2005, but we are negotiating with the landlord for an early termination of it. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans.

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We lease dedicated lines with a total capacity of approximately 900 megabits per second from China Netcom's Beijing affiliate under a contract expiring in September 2003. In addition, we lease shared lines from China Telecom's Changzhou affiliate under contracts expiring in June 2003, January 2004 and March 2004. Our bandwidth fees were approximately US\$1.9 million for the year ended December 31, 2002 and approximately US\$0.5 million for the first quarter of 2003.

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### PART III

#### Item 19. Exhibits

Exhibit Number -----	Document -----
1.1*	Amended and Restated Memorandum of Association of NetEase.com, Inc. (incorporated by reference to Exhibit 3.1 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
1.2*	Amended and Restated Articles of Association of NetEase.com, Inc. (incorporated by reference to Exhibit 3.2 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
1.3*	Amendment to Amended and Restated Articles of Association of NetEase.com, Inc. dated as of June 5, 2003 (incorporated by reference to Exhibit 1.3 from the company's Annual Report on Form 20-F for the year ended December 31, 2002 filed with the Securities and Exchange Commission on June 27, 2003)
2.1*	Specimen American Depositary Receipt of NetEase.com, Inc. (incorporated by reference to Exhibit 4.1 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
2.2*	Specimen Stock Certificate of NetEase.com, Inc. (incorporated by reference to Exhibit 4.2 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
3.1*	Shareholder Voting Rights Trust Agreement dated May 12, 2000 among William Lei Ding, Bo Ding and NetEase Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 10.40 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)

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- 4.1\* 1999 Stock Incentive Plan and Form of Stock Option Agreement (incorporated by reference to Exhibit 10.1 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.2\* Amended and Restated 2000 Stock Incentive Plan and Form of Stock Option Agreement (including standard and non-standard form) (incorporated by reference to Exhibit 4.2 from the company's Annual Report on Form 20-F for the year ended December 31, 2000 filed with the Securities and Exchange Commission on August 31, 2001)
- 4.3\* Employment Agreement dated August 13, 1999 between NetEase.com, Inc. and William Lei Ding (incorporated by reference to Exhibit 10.2 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.4\* Addendum to Employment Agreement between NetEase.com, Inc. and William Ding dated May 1, 2003 (incorporated by reference to Exhibit 4.4 from the company's Annual Report on Form 20-F for the year ended December 31, 2002 filed with the Securities and Exchange Commission on June 27, 2003)
- 4.5\* Employment Agreement dated April 1, 2002 between NetEase.com, Inc. and Denny Lee (incorporated by reference to Exhibit 4.5 from the company's Annual Report on Form 20-F

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for the year ended December 31, 2002 filed with the Securities and Exchange Commission on June 27, 2003)

- 4.6\* Employment Agreement dated September 11, 2001 between NetEase.com, Inc. and Ted Sun (incorporated by reference to Exhibit 4.6 from the company's Annual Report on Form 20-F for the year ended December 31, 2001 filed with the Securities and Exchange Commission on June 21, 2002)
- 4.7\* Employment Agreement dated June 25, 2003 between NetEase.com, Inc. and Michael Tong (incorporated by reference to Exhibit 4.7 from the company's Annual Report on Form 20-F for the year ended December 31, 2002 filed with the Securities and Exchange Commission on June 27, 2003)
- 4.8\* Asset Purchase Agreement dated September 1, 1999 between Guangzhou NetEase Computer System Co., Ltd. and NetEase Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 10.4 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.9\* Supplemental Agreement to Asset Purchase Agreement dated as of September 24, 1999 between Guangzhou NetEase Computer System Co., Ltd. and NetEase Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 10.5 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.10\* Domain Name License Agreement dated February 3, 2000 between NetEase.com, Inc. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.7 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the

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Securities and Exchange Commission on March 27, 2000)

- 4.11\* Copyright License Agreement dated February 3, 2000 between NetEase Information Technology (Beijing) Co., Ltd. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.8 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.12\* Trademark License Agreement dated February 3, 2000 between NetEase Information Technology (Beijing) Co., Ltd. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.9 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.13\* Supplemental Agreement (to Copyright License Agreement, Domain Name License Agreement and Exclusive Technical Services Master Agreement) dated April 27, 2000 between NetEase Information Technology (Beijing) Co., Ltd. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.10 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
- 4.14\* Exclusive Technical Services Master Agreement dated February 3, 2000 between NetEase Information Technology (Beijing) Co., Ltd. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.11 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.15\* Notice of Renewal dated April 2, 2001 relating to the Copyright License Agreement, the Trademark License Agreement and the Exclusive Technical Services Master Agreement,

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each dated February 3, 2000 and made between NetEase Information Technology (Beijing) Co., Ltd. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 4.14 from the company's Annual Report on Form 20-F for the year ended December 31, 2000 filed with the Securities and Exchange Commission on August 31, 2001)

- 4.16\* Exclusive Consulting and Services Agreement dated February 3, 2000 between NetEase Information Technology (Beijing) Co., Ltd. and Beijing Guangyitong Advertising Co., Ltd. (incorporated by reference to Exhibit 10.12 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.17\* Notice of Renewal dated April 2, 2001 relating to the Exclusive Consulting and Services Agreement dated February 3, 2000 and made between NetEase Information Technology (Beijing) Co., Ltd. and Beijing Guangyitong Advertising Co., Ltd. (incorporated by reference to Exhibit 4.16 from the company's Annual Report on Form 20-F for the year ended December 31, 2000 filed with the Securities and Exchange Commission on August 31, 2001)
- 4.18\* Exclusive Advertising Agency Agreement dated February 3, 2000 between

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Guangzhou NetEase Computer System Co., Ltd. and NetEase.com, Inc. (incorporated by reference to Exhibit 10.13 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)

- 4.19\* Notice of Renewal dated April 2, 2001 relating to the Exclusive Advertising Agency Agreement dated February 3, 2000 between Guangzhou NetEase Computer System Co., Ltd. and NetEase.com, Inc. (incorporated by reference to Exhibit 4.18 from the company's Annual Report on Form 20-F for the year ended December 31, 2000 filed with the Securities and Exchange Commission on August 31, 2001)
- 4.20\* Trademark Transfer Agreement dated March 29, 2000 between Guangzhou NetEase Computer System Co., Ltd. and NetEase Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 10.14 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
- 4.21\* Online Advertising Agreement dated February 15, 2000 between Guangzhou NetEase Computer System Co., Ltd. and Beijing Guangyitong Advertising Co., Ltd. (incorporated by reference to Exhibit 10.15 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.22\* Notice of Renewal dated April 2, 2001 relating to the Online Advertising Agreement dated February 15, 2000 and made between Guangzhou NetEase Computer System Co., Ltd. and Beijing Guangyitong Advertising Co., Ltd. (incorporated by reference to Exhibit 4.21 from the company's Annual Report on Form 20-F for the year ended December 31, 2000 filed with the Securities and Exchange Commission on August 31, 2001)
- 4.23\* Amended and Restated Investors' Rights Agreement, dated March 28, 2000 among NetEase.com, Inc., Baring Asia Private Equity Investments XI Limited, The Goldman Sachs Group, Inc., Softbank China Venture Investments No. 1 Limited, Best Alliance Profits Limited and Shining Globe International Limited (incorporated by reference to Exhibit 10.16 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.24\* Tenancy Agreement dated October 31, 2002 between NetEase Information Technology (Beijing) Co., Ltd. and Beijing Oriental Plaza Co., Ltd. (incorporated by reference to Exhibit 4.24 from the company's Annual Report on Form 20-F for the year ended December 31,

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2002 filed with the Securities and Exchange Commission on June 27, 2003)

- 4.25\* Strategic Cooperation Agreement dated March 23, 2000 between NetEase.com, Inc. and News Digital Ventures (incorporated by reference to Exhibit 10.23 from the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on March 27, 2000)
- 4.26\* Amendment No. 1 dated June 22, 2000 to the Strategic Cooperation

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- Agreement between NetEase.com, Inc. and News Digital Ventures (incorporated by reference to Exhibit 4.26 from the company's Annual Report on Form 20-F for the year ended December 31, 2000 filed with the Securities and Exchange Commission on August 31, 2001)
- 4.27\* Amendment No. 2 dated September 1, 2000 to the Strategic Cooperation Agreement between NetEase.com, Inc. and News Digital Ventures (incorporated by reference to Exhibit 4.27 from the company's Annual Report on Form 20-F for the year ended December 31, 2000 filed with the Securities and Exchange Commission on August 31, 2001)
- 4.28\* Letter Agreement dated as of February 24, 2003 regarding the Strategic Cooperation Agreement between NetEase.com, Inc. and News Digital Ventures (incorporated by reference to Exhibit 4.28 from the company's Annual Report on Form 20-F for the year ended December 31, 2002 filed with the Securities and Exchange Commission on June 27, 2003)
- 4.29\* Supplemental Agreement dated May 10, 2000 (amending the Domain Name License Agreement) between NetEase.com, Inc. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.37 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
- 4.30\* Agreement dated May 11, 2000 between NetEase Information Technology (Beijing) Co., Ltd. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.41 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
- 4.31\* Operating Agreement dated May 10, 2000 among NetEase Information Technology (Beijing) Co., Ltd., Beijing Guangyitong Advertising Co., Ltd., Bo Ding and William Lei Ding (incorporated by reference to Exhibit 10.42 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
- 4.32\* Supplemental Agreement dated May 12, 2000 (supplementing the Online Advertising Agreement dated February 15, 2000) between Guangzhou NetEase Computer System Co., Ltd. and Beijing Guangyitong Advertising Co., Ltd. (incorporated by reference to Exhibit 10.47 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
- 4.33\* Supplemental Agreement dated May 15, 2000 (supplementing the Domain Name License Agreement dated February 3, 2000) between NetEase.com, Inc. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.48 from Amendment No. 1 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on May 15, 2000)
- 4.34\* Letter of Agreement, dated June 6, 2000, among William Lei Ding, Bo Ding and NetEase.com, Inc. (incorporated by reference to Exhibit 10.49 from Amendment No. 2 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on June 15, 2000)

- 4.35\* Supplemental Agreement dated June 15, 2000 (supplementing the Online

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Advertising Agreement dated February 15, 2000), between Beijing Guangyitong Advertising Co., Ltd. and Guangzhou NetEase Computer System Co., Ltd. (incorporated by reference to Exhibit 10.50 from Amendment No. 2 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on June 15, 2000)

- 4.36\* Supplemental Agreement dated June 15, 2000 (supplementing the Exclusive Consulting and Services Agreement dated February 3, 2000), between NetEase Information Technology (Beijing) Co., Ltd. and Beijing Guangyitong Advertising Co., Ltd. (incorporated by reference to Exhibit 10.51 from Amendment No. 2 to the company's Registration Statement on Form F-1 (file no. 333-11724) filed with the Securities and Exchange Commission on June 15, 2000)
- 4.37\* Trademark Assignment Agreement dated August 17, 2001 between Guangzhou NetEase Computer System Co., Ltd. and NetEase Information Technology (Beijing) Co., Ltd and its Supplemental Agreement dated August 27, 2001 (incorporated by reference to Exhibit 4.53 from the company's Annual Report on Form 20-F for the year ended December 31, 2000 filed with the Securities and Exchange Commission on August 31, 2001)
- 8.1\* Subsidiaries of NetEase.com, Inc. (incorporated by reference to Exhibit 8.1 from the company's Annual Report on Form 20-F for the year ended December 31, 2002 filed with the Securities and Exchange Commission on June 27, 2003)
- 10.1\* Consent of PricewaterhouseCoopers, Independent Public Accountants
- 10.2\* Consent of Maples and Calder Asia
- 10.3\* Consent of Commerce & Finance Law Office
- 12.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 12.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 99.1\* CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2\* CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Previously filed

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### SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this amendment no. 1 to the annual report on its behalf.

NETEASE.COM, INC.

Date: December 29, 2003

By: /s/ Ted Sun

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Ted Sun  
Acting Chief Executive Officer

