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NETEASE COM INC  
Form 6-K  
October 29, 2003

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the month of October 2003  
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Commission File Number: 333-100069  
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NETEASE.COM, INC.

Suite 1901, Tower E3  
The Towers, Oriental Plaza  
Dong Cheng District  
Beijing, People's Republic of China 100738  
(Address of principal executive offices)

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

Form 20-F                      X                      Form 40-F  
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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): \_\_\_\_\_

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

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

Yes                                      No                                      X  
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If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

82-                      N.A.  
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NETEASE.COM, INC.

Form 6-K

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SIGNATURES

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

NETEASE.COM, INC.

By: /s/ Ted Sun

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Name: Mr. Ted Sun  
Title: Acting Chief Executive Officer  
and Director

Date: October 29, 2003

[COMPANY LOGO]

Press Release

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NetEase.com Announces Record Third Quarter Results

Financial Highlights for the Third Quarter 2003:

- Total revenues grow by 96.6% year-over-year to RMB146.3 million

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(US\$17.7 million) led by growth in the Company's online game business

- Continued revenue growth and reduction of cost of sales result in further enhanced gross margins of 82.8%
- Company achieves operating profit of RMB87.1 million (US\$10.5 million) and net profit of RMB84.1 million (US\$10.2 million), or US\$0.33 per American Depositary Share (basic)

(Beijing - October 28, 2003) - NetEase.com, Inc. (Nasdaq: NTES), a leading Internet technology provider in China, today announced financial results for its third quarter ended September 30, 2003.

The Company reported total revenues of RMB146.3 million (US\$17.7 million) for the third quarter, a 7.4% increase over total revenues of RMB136.2 million (US\$16.5 million) for the preceding quarter ended June 30, 2003 and a 96.6% increase over total revenues of RMB74.4 million (US\$9.0 million) for the corresponding period in 2002. The Company reported a net profit of RMB84.1 million (US\$10.2 million), or US\$0.33 and US\$0.30 per basic and diluted American Depositary Share, respectively, compared to the previous quarter's net profit of RMB75.8 million (US\$9.2 million), or US\$0.29 and US\$0.28 per basic and diluted American Depositary Share, respectively. The same quarter in the previous year had a net loss of RMB9.0 million (US\$1.1 million).

Revenues from SMS and other e-commerce services for the quarter were RMB62.7 million (US\$7.6 million), representing a 20.7% decrease over the preceding quarter's RMB79.1 million (US\$9.6 million), and a 20.1% increase over RMB52.2 million (US\$6.3 million) for the

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corresponding period a year ago. The decrease in SMS and other e-commerce services revenues from the previous quarter was attributable primarily to the strengthening of competition in the wireless service area, the discontinuation of the Company's cooperation arrangements with certain third-party Web sites which were promoting the Company's wireless services, and the decision by the two mobile phone operators in China to restrict the range of services that the Company can offer and charge through them. In response to these changes, NetEase began to offer a number of previously fee-based products for free in the meantime, with an aim of further enhancing their popularity and accumulating a larger user base which would put the Company in a position to capitalize on its accumulated user base when alternative payment solutions become available.

Online game service revenues for the quarter were RMB56.5 million (US\$6.8 million), representing a 55.9% increase over the preceding quarter's RMB36.2 million (US\$4.4 million) and a 366.8% increase over RMB12.1 million (US\$1.5 million) for the corresponding period a year ago. Strong growth in this revenue segment was largely due to the continued increase in popularity of the Company's self-developed online game title, Westward Journey Online Version 2, which had approximately 1.2 million unique paying users during September 2003.

Advertising service revenues were RMB27.1 million (US\$3.3 million) for the quarter ended September 30, 2003, representing a 30.0% increase over RMB20.8 million (US\$2.5 million) for the preceding quarter and a 168.7% increase over RMB10.1 million (US\$1.2 million) for the corresponding period a year ago. The growth of advertising service revenues was mainly attributable to the continued strong growth of the overall online advertising sector in China.

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The Company reported gross profit in the third quarter of RMB121.2 million (US\$14.6 million), increasing 12.7% over the previous quarter's RMB107.5 million (US\$13.0 million) and 141.0% over RMB50.3 million (US\$6.1 million) for the corresponding period a year ago. The revenue growth coupled with a reduction in cost of sales favorably impacted gross margins, which increased from 78.9% in the preceding quarter to 82.8% in the third quarter. The reduction in cost of sales was mainly due to the saving of commissions payable resulting from the discontinuation of the Company's cooperation arrangements with certain third-party Web sites which were promoting the Company's wireless services as mentioned above.

Total operating expenses were RMB34.1 million (US\$4.1 million), a 15.3% increase from the previous quarter's RMB29.6 million (US\$3.6 million) and a 44.1% decrease from the corresponding period a year ago of RMB61.0 million (US\$7.4 million). This increase was largely due to expenses incurred in connection with the Company's convertible notes offering which was completed in July 2003.

The Company reported an operating profit of RMB87.1 million (US\$10.5 million) in the third quarter, representing continued improvement over last quarter's operating profit of RMB77.9 million (US\$9.4 million). In the third quarter of previous year, the Company had an operating loss of RMB10.7 million (US\$1.3 million).

Net interest income increased to RMB3.6 million (US\$0.4 million) in the third quarter, compared to RMB1.9 million (US\$0.2 million) in the previous quarter, due to the additional cash balance derived from the convertible notes offering and from the Company's cash flow from operations.

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The Company reported a net profit of RMB84.1 million (US\$10.2 million) in the third quarter, an increase of 11.0% over the previous quarter's net profit of RMB75.8 million (US\$9.2 million) and comparing well to the net loss of RMB9.0 (US\$1.1 million) for the corresponding period a year ago. The increase in the effective tax rate during the third quarter is primarily due to a higher proportion of profit being earned in a subsidiary company which has a higher tax rate than the other group companies when compared to the second quarter.

As of September 30, 2003, the Company's total cash balance was RMB1.6 billion (US\$192.6 million), a 118.4% increase from the previous quarter's RMB729.9 million (US\$88.2 million). The increase was mainly attributable to the issuance of the Zero Coupon Convertible Subordinated Notes in the aggregate amount of US\$100 million in July 2003. Cash flow generated from operating activities was approximately RMB102.3 million (US\$12.4 million) during the quarter.

### Other Developments

Users of the Company's Web sites continued to grow, with 144 million accumulated registered accounts at the end of the third quarter, an increase of 12.9% over the 127 million accounts at the end of the previous quarter and a 78.1% increase over the 80.7 million accounts at the same time a year ago.

During the quarter, the Company implemented several enhancements to its Web sites. For example, the Company began to aggressively promote its new Instant Message (IM) tool (popo.163.com), a community-oriented communication platform highly popular among NetEase's younger demographic. NetEase's IM tool allows

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users to send SMS messages directly from a PC to a mobile phone, from a mobile phone to PC, and from a PC to a PC. By offering the PC-to-mobile phone instant messaging service for free until the end of the year, NetEase is bearing the SMS transmission cost of the new service as an investment to further strengthen its relationships with its current users and expand its user base. IM users bring strong revenue potential as particularly loyal users, and IM messages are moreover sent to and received by NetEase and non-NetEase users alike. The offering of the free service has proven very effective and is already showing strong growth in terms of the number of registered users and traffic volume so far.

In September, the Company entered into an arrangement with MTV, the music television company, to be the exclusive wireless partner of MTV in Mainland China. Under this arrangement, NetEase users have the ability to send short messages to MTV video jockeys to request songs, subscribe to special services and clubs, request pictures and information about performers and participate in various contests.

Additionally, in September, the Company launched its online job search service (job.163.com), taking advantage of its large user base and more than 320 million average daily pageviews. Matching employers and job seekers, the service was initially provided free-of-charge to businesses and users, and changed to a fee-based service in October.

The Company continued to improve and revamp its content channels, with two new content channels launched during the quarter - Business Channel (biz.163.com) and Consumer Guide

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Channel (buy.163.com). The Business Channel is a new "interactive content channel" focusing on business affairs and in-depth analysis of the China market, CEO interviews, business reviews and management training. The Business Channel supports popular "web logs" features by which users not only read the content, but also can share opinions and create a personal forum to attract other users' feedback. The Consumer Guide Channel is dedicated to better consumer education. It offers original product review articles, price and market information, news about latest products to be launched and features on user applications and modifications. In the initial stages, the channel will focus on digital products like digital cameras, portable music players, PC hardware and peripherals, and mobile phones.

Commenting on these third quarter results, Ted Sun, acting Chief Executive Officer and Director of the Company said, "We are pleased with our results this past quarter, which continue to benefit from NetEase's diversified revenue strategy. Our revenues in both advertising and online games continue to be robust. And while our revenues from SMS and other E-commerce services were slower for the quarter, we are confident that our investments in our new free-of-charge offerings will provide long-term benefits through increased loyalty and an expanded user base."

"Advertising service revenues continues to show strong growth given the widening realization among advertisers that the Internet is a mainstream media and our younger demographics as a highly desirable consumer base with spending power. Additionally, our enhancements to the NetEase Web sites in this past quarter demonstrate our ongoing commitment to understanding our customers and offering products and services specific to their tastes and interests. Our new IM offering, for example, which has exhibited strong initial success, serves as a useful 'sticky' communication application that brings users into our Web sites

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and enhance the possibility that they use our other wide assortment of products and services. Through other services, such as our new online job search service, we are ensuring that we grow alongside with our users as they get older, and expand their interests."

Mr. Sun added, "We continue to see significant opportunities with our online games, which continues to experience high growth despite increasing competition and beginning of the school season. The strong growth of our online game business has once again proved the different possibilities of monetizing the Internet user base. At the end of this year, we plan to launch our newest game, also developed in-house, and we are confident that this offering will further strengthen this important revenue segment."

Denny Lee, NetEase's Chief Financial Officer, added, "This quarter represents our fourth consecutive report of operating profitability for the Company. This, combined with our healthy balance sheet and strong cash position, give the Company a solid financial footing to take advantage of future opportunities for growth and expansion in our market."

"In conclusion," said Mr. Sun, "NetEase continues to be well positioned, both in terms of our revenue segments and our user base, which is responding well to our new products and services. Going forward we will continue to focus on innovative offerings that differentiate our Web sites and appeal to our users."

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\*\* Note: The conversion of Renminbi (RMB) into U.S. dollars in this release is based on the exchange rate of USD1 = RMB8.2771. The percentages stated in this press release are calculated based on RMB.\*\*

### Web Cast

NetEase will host a conference call to discuss third quarter earnings at 7:00 pm Eastern Time today (Beijing/Hong Kong time: October 29, 2003 at 8:00am). The management team will discuss quarterly results and highlights, and answer questions. This call can be accessed at NetEase's corporate web site at <http://corp.netease.com>, through CCBN's individual investor center at

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[www.companyboardroom.com](http://www.companyboardroom.com) or by visiting any of the investor sites in CCBN's

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Individual Investor Network. Institutional investors can access the call via CCBN's password-protected event management site, StreetEvents ([www.streetevents.com](http://www.streetevents.com)).

### About NetEase

NetEase.com, Inc. is a leading China-based Internet technology company that pioneered the development of applications, services and other technologies for the Internet in China. The Company's online communities and personalized premium services have established a large and stable user base for the NetEase Web sites which are operated by our affiliate. As of September 30, 2003 NetEase had approximately 144 million accumulated registered accounts, and our average daily page views for the month ended September 30, 2003 exceeded 329 million.

Community products and services which the NetEase Web sites offer include Instant Messaging, Personals, Matchmaking, Alumni Clubs, Personal Home Pages and Community Forums. NetEase is also the largest provider of free e-mail services

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in China. Furthermore, the NetEase Web sites provide 20 channels of content. NetEase sources news content on world events, sports, science and technology, and financial markets as well as entertainment content such as cartoons, games, astrology and jokes from over one hundred international and domestic content providers.

NetEase offers on-line advertising on its Web sites as well as paid listings on its Search Engine, Web Directory and Classified Ads services, and an Online Mall, which provides opportunities for e-commerce and traditional businesses to establish their own storefront on the Internet.

NetEase also offers Wireless Value-added Services such as news and information content sent over short-messaging services, MMS and WAP technologies, and Online Game services through two massively multi-player online role-playing game titles, Westward Journey Online 2.0 and PristonTale 2.0.

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This press release contains statements of a forward-looking nature. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar statements. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including risks related to: the impact of the outbreak of severe acute respiratory syndrome, or SARS, in China and risks related to any possible recurrence of SARS or another public health problem in China; the risk that the online advertising market in China will not continue to grow and will remain subject to intense competition; the risk that NetEase will not be able to continue to successfully monetize the user base of the NetEase Web sites and that its e-commerce and other fee-based services revenues will not continue to grow; the risk that the current popularity of SMS in China will not continue for whatever reason, including SMS being superseded by other technologies for which NetEase is unable to offer attractive products and services; the risk that NetEase 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 NetEase will not be able to maintain its leading position in that market; the risk that NetEase will not be able to control its expenses in future periods; the risk that the trading price of NetEase's American Depositary Shares may decrease for a variety of reasons, some of which may be beyond the control of management; the risk that current or future appointees to management are not effective in their respective positions; the difficulty in locating and recruiting suitable candidates for middle and senior management positions; the risk that NetEase may not be able to satisfy its obligations with respect to its Zero Coupon Convertible Subordinated Notes which could lead to a default on the Notes and an adverse affect on its business and financial condition; the risk that NetEase may not use the proceeds from the offering of those Notes and its other cash in a productive manner; NetEase's ability to develop and implement additional operational and financial systems to manage NetEase's operations; competition in NetEase's existing and potential markets; governmental uncertainties, general competition and price pressures in the marketplace; uncertainty as to future profitability; the risk that security, reliability and

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confidentiality concerns may impede broad use of the Internet and e-commerce and other services; and other risks outlined in NetEase's filings with the Securities and Exchange Commission, including its registration statements on Form F-1 and Form F-3, as amended. NetEase does not undertake any obligation to update this forward-looking information, except as required under applicable law.

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NETEASE.COM, INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS

	December 31, 2002	September 30, 2003	September 30, 2003
	----- RMB	----- RMB	----- USD (Note 1)
<b>Assets</b>			
<b>Current assets:</b>			
Cash	560,069,711	1,594,177,793	192,601,007
Restricted cash	1,208,305	-	-
Prepayments and other current assets	6,110,689	25,018,385	3,022,603
Due from related parties, net	22,448,509	24,665,646	2,979,986
	-----	-----	-----
Total current assets	589,837,214	1,643,861,824	198,603,596
Non-current rental deposit	1,065,912	1,313,837	158,732
Property, equipment and software, net	26,379,182	30,006,148	3,625,201
Deferred assets	-	13,880,162	1,676,935
Deferred tax assets	2,395,888	9,237,706	1,116,056
	-----	-----	-----
Total assets	619,678,196	1,698,299,677	205,180,520
	=====	=====	=====
<b>Liabilities &amp; Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Accounts payable and other liabilities	14,378,114	14,209,760	1,716,756
Salary and welfare payable	16,023,380	14,064,028	1,699,149
Taxes payable	8,252,950	20,839,874	2,517,775
Due to related parties, net	-	34,761,994	4,199,779
	-----	-----	-----
Total current liabilities	38,654,444	83,875,656	10,133,459
	-----	-----	-----
<b>Long-term liabilities</b>			
Zero Coupon Convertible Subordinated Notes due July 15, 2023	-	827,700,000	100,000,000
Other long-term liabilities	-	316,315	38,216
	-----	-----	-----
	-	828,016,315	100,038,216
Total liabilities	38,654,444	911,891,971	110,171,675
	-----	-----	-----



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Shareholders' equity:

Ordinary shares, US\$0.0001 par value:			
1,000,300,000,000 shares authorized, 3,100,162,537 shares issued and outstanding as of December 31, 2002, and 3,126,540,189 shares issued and outstanding as of September 30, 2003	2,566,543	2,587,941	312,663
Additional paid-in capital	1,049,651,354	992,819,416	119,947,737
Less: Subscriptions receivable	(33,113,848)	-	-
Deferred compensation	(474,739)	(168,551)	(20,364)
Translation adjustments	228,910	210,838	24,265
Accumulated deficit	(437,834,468)	(209,041,938)	(25,255,456)
	-----	-----	-----
Total shareholders' equity	581,023,752	786,407,706	95,008,845
	-----	-----	-----
Total liabilities and shareholders' equity	619,678,196	1,698,299,677	205,180,520
	=====	=====	=====

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB8.2771 on September 30, 2003 in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York.

Note 2: The Company's trading unit on The Nasdaq National Market is American Depositary Shares (ADS). Each ADS represents 100 ordinary shares.

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NETEASE.COM, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarter Ended			
	September 30,	June 30,	September 30,	September 30,
	2002	2003	2003	2003
	RMB	RMB	RMB	USD (Note 1)
<b>Revenues:</b>				
SMS and other EC related services	52,223,549	79,109,673	62,712,103	7,576,5
Online game services	12,101,047	36,233,479	56,484,513	6,824,1
Advertising services	10,072,330	20,823,784	27,065,846	3,269,9
	-----	-----	-----	-----
Total revenues	74,396,926	136,166,936	146,262,462	17,670,7
Sales and value-added taxes	(3,694,693)	(6,807,862)	(7,313,123)	(883,5
	-----	-----	-----	-----

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Net revenues	70,702,233	129,359,074	138,949,339	16,787,2
Cost of revenues:				
SMS and other EC related services	(8,201,935)	(11,837,810)	(5,797,489)	(700,4
Online game services	(4,801,454)	(4,012,240)	(4,693,865)	(567,0
Advertising services	(7,414,270)	(6,037,053)	(7,286,807)	(880,3
Total cost of revenues	(20,417,659)	(21,887,103)	(17,778,161)	(2,147,8
Gross profit	50,284,574	107,471,971	121,171,178	14,639,3
Operating expenses:				
Selling, general and administrative expenses	(22,173,615)	(25,460,237)	(30,012,933)	(3,626,0
Research and development expenses	(2,802,826)	(4,126,390)	(4,095,277)	(494,7
Class action settlement	(36,005,385)	-	-	
Total operating expenses	(60,981,826)	(29,586,627)	(35,033,069)	(4,232,5
Operating profit (loss)	(10,697,252)	77,885,344	87,062,968	10,518,5
Other income (expenses):				
Interest income	1,719,807	1,908,473	3,640,487	439,8
Interest expense	(191,924)	-	-	
Other, net	145,506	154,828	(121,222)	(14,6
Profit (loss) before tax	(9,023,863)	79,948,645	90,582,233	10,943,7
Income tax	-	(4,161,744)	(6,492,105)	(784,3
Net profit (loss)	(9,023,863)	75,786,901	84,090,128	10,159,3
Net earnings (loss) per share, basic	(0.01)	0.02	0.03	0.
Net earnings (loss) per ADS, basic	(0.30)	2.42	2.69	0.
Net earnings (loss) per share, diluted	(0.01)	0.02	0.02	0.
Net earnings (loss) per ADS, diluted	(0.30)	2.32	2.44	0.
Weighted average number of ordinary shares outstanding, basic	3,046,595,200	3,133,838,801	3,124,178,385	3,124,178,38
Weighted average number of ADS outstanding, basic	30,465,952	31,338,388	31,241,784	31,241,78
Weighted average number of ordinary shares outstanding,				

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diluted	3,046,595,200	3,268,550,744	3,439,778,658	3,439,778,6
Weighted average number of ADS outstanding, diluted	30,465,952	32,685,507	34,397,787	34,397,7

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB8.2771 on September 30, 2003 in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York.

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NETEASE.COM, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter End	
	September 30, 2002	June 30, 2003
	RMB	RMB
Cash flows from operating activities:		
Net profit (loss)	(9,023,863)	75,786,901
Adjustments for:		
Depreciation	5,262,863	4,250,299
Share compensation cost	835,732	27,964
Provision for doubtful debts	1,324,337	1,057,604
Amortization of issuance cost of convertible bonds	-	-
(Increase) decrease in prepayments and other current assets	784,999	(2,458,428)
(Increase) decrease in due from/to related parties	(3,107,933)	5,168,596
Increase in deferred assets	(277,499)	-
(Increase) decrease in deferred tax assets	-	(3,887,280)
Increase (decrease) in accounts payable	(6,803,145)	604,963
Decrease in deferred revenue	(127,998)	(8,250)
Increase (decrease) in salary and welfare payable	(3,651,199)	(1,879,019)
Increase in taxes payable	4,287,384	6,555,189
Increase (decrease) in other liabilities	4,061,949	(421,266)
Net cash provided by (used in) operating activities	(6,434,373)	84,797,273
Cash flows from investing activities:		
Purchase of property, equipment and software	(1,305,868)	(2,866,891)
Increase in non-current deposit	-	(166,136)
Net cash used in investing activities	(1,305,868)	(3,033,027)

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Cash flows from financing activities:		
Proceed from employee exercising stock options	2,622,975	8,542,745
Net payment to repurchase ordinary shares	-	-
Proceed from issuance of convertible notes	-	-
Payment for issuance cost of convertible notes	-	-
Increase in finance lease payable	-	316,315
	-----	-----
Net cash provided by financing activities	2,622,975	8,859,060
	-----	-----
Net increase (decrease) in cash	(5,117,266)	90,623,306
Less: (Increase) decrease in restricted cash	(7,651)	(4,861)
Cash, beginning of the period	526,641,615	638,087,620
	-----	-----
Cash, end of the period	521,516,698	728,706,065
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	-	5,006,782
	=====	=====
Supplemental schedule of non-cash investing and financing activities		
Compensation costs, arising from transfer of ordinary shares and issuance of stock options in the Company to senior management personnel and some non-employees of the Company	835,732	27,964
	=====	=====

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB8.2771 on September 30, 2003 in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York.