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NETEASE COM INC
Form 6-K
February 20, 2004

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 February 2004

Commission File Number: 333-100069

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

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

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

82- N.A.

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

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

Date: February 19, 2004

Exhibit 99.1

[Company Logo]

Press Release

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NetEase.com Reports Record Fourth Quarter and Fiscal Year 2003

Financial Results

Highlights for the Fourth Quarter 2003

- Continued total net revenue growth, increasing 16.4% over preceding

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quarter led by the Company's steady growth in online game business

- Company increases operating profit to RMB98.3 million (US\$11.9 million) and net profit of RMB94.1 million (US\$11.4 million), or US\$0.36 per American Depositary Share (basic)

Highlights for Fiscal Year 2003

- Strong total net revenue growth of 145.4% over the preceding year driven by diverse revenue streams
- Company achieves second consecutive year of net profit with substantial increase to RMB322.9 million (US\$39.0 million) from RMB16.3 million (US\$2.0 million) for the previous year

(Beijing - February 18, 2004) - NetEase.com, Inc. (Nasdaq: NTES), one of China's leading Internet, online game and wireless value-added services providers, today announced financial results for its fourth quarter and fiscal year ended December 31, 2003.

"Our strong performance in the fourth quarter has ended another outstanding year for NetEase, resulting in a second consecutive year of profit," said Ted Sun, Acting Chief Executive Officer of NetEase. "2003 was the year NetEase solidified its position as one of China's leading online game providers, and with our wireless value-added and other e-commerce services and online advertising businesses also performing well, we believe that we are well positioned for another year of growth."

[Company Logo]

Financial Results

For the fourth quarter ended December 31, 2003, the Company reported total net revenues of RMB161.8 million (US\$19.5 million), a 16.4% and 77.9% increase over total net revenues of RMB138.9 million (US\$16.8 million) for the preceding quarter and RMB90.9 million (US\$11.0 million) for the corresponding period in 2002, respectively. The Company reported net profit of RMB94.1 million (US\$11.4 million), or US\$0.36 per American Depositary Share (basic), a 11.9% and 118.3% increase over net profit of RMB84.1 million (US\$10.2 million) for the preceding quarter and RMB43.1 million (US\$5.2 million) for the corresponding period in 2002, respectively.

For the year ended December 31, 2003, the Company reported total net revenues of RMB542.1 million (US\$65.5 million), a strong increase of 145.4% over total net revenues of RMB220.9 million (US\$26.7 million) for the fiscal year 2002. For the fiscal year 2003, NetEase reported a gross profit and operating profit of RMB456.7 million (US\$55.2 million) and RMB326.8 million (US\$39.5 million), respectively, representing a substantial increase over gross profit of RMB149.3 million (US\$18.0 million) and operating profit of RMB4.0 million (US\$0.49 million) for the fiscal year 2002. The Company reported net profit of RMB322.9 million (US\$39.0 million), or US\$1.25 per American Depositary Share (basic), compared to the previous year's net profit of RMB16.3 million (US\$2.0 million).

For the fourth quarter ended December 31, 2003, online game services continued to grow steadily to RMB70.7 million (US\$8.5 million), representing a 31.8% and 222.2% increase over RMB53.7 million (US\$6.5 million) for the preceding quarter and RMB21.9 million (US\$2.6 million) for the corresponding period a year ago, respectively. 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 2.0, which had approximately 1.6 million

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unique paying users for the month of December 2003.

Revenues from wireless value-added and other e-commerce services for the quarter were RMB64.6 million (US\$7.8 million), representing a 8.4% increase over the preceding quarter's RMB59.6 million (US\$7.2 million) and a 13.0% increase over RMB57.2 million (US\$6.9 million) for the corresponding period a year ago. This increase in revenues from wireless value-added and e-commerce services reflected ongoing demand for value-added services by Chinese mobile phone customers and positive response to new company offerings in this area.

Advertising revenues were RMB26.5 million (US\$3.2 million), representing a 3.0% increase over the preceding quarter's RMB25.7 million (US\$3.1 million) and a 123.8% increase over RMB11.8 million (US\$1.4 million) for the corresponding period a year ago.

The Company achieved gross profit in the fourth quarter of RMB136.2 million (US\$16.5 million), increasing 12.4% over the previous quarter's RMB121.2 million (US\$14.6 million) and 95.7% over RMB69.6 million (US\$8.4 million) for the corresponding period a year ago. Gross margins were at 84.2% in the fourth quarter.

Total operating expenses were RMB37.9 million (US\$4.6 million), a 11.2% increase from the previous quarter's RMB34.1 million (US\$4.1 million) and a 23.8% increase from the

[Company Logo]

corresponding period a year ago of RMB30.7 million (US\$3.7 million). This rise was partly due to ongoing investments in both product development staffing and online game product development, as well as an increase in marketing spending. The Company reported an operating profit of RMB98.3 million (US\$11.9 million) in the fourth quarter, representing a 12.9% and 152.2% increase over last quarter's operating profit of RMB87.1 million (US\$10.5 million) and RMB39.0 million (US\$4.7 million) for the corresponding period last year, respectively.

The Company reported a net profit of RMB94.1 million (US\$11.4 million) in the fourth quarter, an increase of 11.9% over the previous quarter's net profit of RMB84.1 million (US\$10.2 million) and 118.4% over RMB43.1 million (US\$5.2 million) for the corresponding period a year ago. The Company's net profit was affected by an increase in the effective tax rate during the fourth quarter, which was primarily due to a smaller deferred tax credit adjustment made in the fourth quarter as compared with the third quarter relating to tax losses carry forwards.

As of December 31, 2003, the Company's total cash and held-to-maturity investments balance was RMB1.7 billion (US\$204.0 million), a 5.9% increase from the previous quarter's RMB1.6 billion (US\$192.6 million). Cash flow generated from operating activities was approximately RMB104.9 million (US\$12.7 million) during the quarter.

Commenting on the Company's earnings, Ted Sun said, "In the fourth quarter, our growth was led by our online games division, which we expect will continue to be a major growth driver in 2004. Our first in-house developed game, Westward Journey Online Version 2.0, has met with much success in the Chinese market - it continues to rank among the most popular online games in China and has received numerous awards, including Top 10 Most Popular Domestic Developed Games by "China Game Industry Report 2003" sponsored by the General Administration of Press and Publication of the People's Republic of China. At the end of the quarter we also launched a new in-house developed game, Fantasy Westward Journey. This game is targeted at a different demographic segment and geographic base than our other titles and initial results have been very encouraging. Our

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proven in-house online game development capabilities is a key strength for the Company and has given us an important early lead in this fast-growing sector."

"Our wireless value-added and other e-commerce business rebounded from last quarter, and our user base in this market is continuing to expand, due in part to new offerings and services made available during the quarter. While we expect the wireless value-added and other e-commerce related market in China to become increasingly competitive, we expect consumer demand to grow and we will continue to develop new and innovative services to attract users. The growth of advertising revenues was slow in the fourth quarter. However, advertising revenue showed good growth year-over-year, and will continue to be an important revenue driver for the Company in the coming year."

Denny Lee, NetEase's Chief Financial Officer said, "NetEase continues to be on a very strong financial footing, with diversified revenue streams and positive operating cash flow. We will continue to invest in new products and services and our employee base, so as to maintain our leading position as one of the most innovative and profitable listed portals in China."

[Company Logo]

Ted Sun concluded, "We are optimistic about the Company's prospects for growth going forward. We believe that NetEase's strong market position in online advertising and wireless value-added services, combined with our offerings targeted to the fast growing online game industry in China will again benefit the Company in 2004."

Users of the NetEase Web sites continued to grow, with 167 million accumulated registered accounts at the end of the fourth quarter, an increase of 16.0% over the 144 million accounts at the end of the previous quarter and a 74.5% increase over the 95.7 million accounts at the same time a year ago.

** Note: The conversion of Renminbi (RMB) into U.S. dollars in this release is based on the exchange rate of US\$1 = RMB8.2767. The percentages stated in this press release are calculated based on RMB.**

About NetEase

NetEase.com, Inc. is a leading China-based Internet technology company that pioneered the development of applications, services and other technologies for the Internet in China. Our online communities and personalized premium services have established a large and stable user base for the NetEase Web sites which are operated by our affiliate. As of December 31, 2003 we had approximately 167 million accumulated registered accounts, and our average daily page views for the month ended December 31, 2003 exceeded 390 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 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

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content sent over short-messaging services, multi-media messaging services and wireless application protocol technologies, and online game services through three massively multi-player online role-playing game titles, Westward Journey Online Version 2.0, Fantasy Westward Journey and PristonTale 2.0.

* * *

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

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could cause actual results to differ materially from those projected or anticipated, including risks related to: the risk that the online game market will not continue to grow or that NetEase will not be able to maintain its leading position in that market; the risk that NetEase will be unable to compete effectively in the wireless value-added services market; 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 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 NetEase will not be able to control its expenses in future periods; the impact of the outbreak of severe acute respiratory syndrome, or SARS, in China and risks related to any possible recurrence of SARS or another public health problem in China; 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 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

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	December 31, 2002	December 31, 2003	December 31, 2003
	RMB	RMB	USD (Note
Assets			
Current assets:			
Cash	560,069,711	1,356,069,544	163,841,
Restricted cash	1,208,305	-	
Held-to-maturity investments	-	332,093,546	40,123,
Prepayments and other current assets	6,110,689	19,749,369	2,386,
Due from related parties, net	22,448,509	15,182,589	1,834,
Deferred tax assets	2,395,888	9,669,543	1,168,
	-----	-----	-----
Total current assets	592,233,102	1,732,764,591	209,354,
Non-current rental deposit	1,065,912	1,430,544	172,
Property, equipment and software, net	26,379,182	40,410,264	4,882,
Deferred assets	-	12,086,693	1,460,
	-----	-----	-----
Total assets	619,678,196	1,786,692,092	215,870,
	=====	=====	=====
Liabilities & Shareholders' Equity			
Current liabilities:			
Accounts payable and other liabilities	22,631,064	38,413,193	4,641,
Salary and welfare payable	16,023,380	17,405,624	2,102,
Due to a related party, net	-	21,947,411	2,651,
	-----	-----	-----
Total current liabilities	38,654,444	77,766,228	9,395,
	-----	-----	-----
Long-term payable:			
Zero Coupon Convertible Subordinated Notes due July 15, 2023	-	827,670,000	100,000,
Other long-term payable	-	231,449	27,
	-----	-----	-----
	-	827,901,449	100,027,
	-----	-----	-----
Total liabilities	38,654,444	905,667,677	109,423,
	-----	-----	-----
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 3,128,958,189 shares issued and outstanding as of December 31, 2003	2,566,543	2,589,756	312,
Additional paid-in capital	1,049,651,354	993,254,740	120,006,
Less: Subscriptions receivable	(33,113,848)	-	
Statutory reserve	-	33,699,834	4,071,

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Deferred compensation	(474,739)	(69,175)	(8,3
Translation adjustments	228,910	210,838	25,
Accumulated deficit	(437,834,468)	(148,661,578)	(17,961,4
<hr style="border-top: 1px dashed black;"/>			
Total shareholders' equity	581,023,752	881,024,415	106,446,
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Total liabilities and shareholders' equity	619,678,196	1,786,692,092	215,870,
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Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB 8.2767 on December 31, 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 OPERATIONS

	Quarter Ended				
	December 31, 2002	September 30, 2003	December 31, 2003	December 31, 2003	December 31, 2002
	RMB	RMB	RMB	USD (Note 1)	RMB
Net revenues:					
Wireless value-added and other EC related services	57,165,438	59,576,498	64,587,038	7,803,477	153,24
Online game services	21,925,716	53,660,287	70,728,416	8,545,484	35,20
Advertising services	11,831,766	25,712,554	26,477,574	3,199,050	32,49
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Total net revenues	90,922,920	138,949,339	161,793,028	19,548,011	220,94
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Cost of revenues:					
Wireless value-added and other EC related services	(8,591,113)	(5,797,489)	(9,000,874)	(1,087,495)	(29,524
Online game services	(5,851,030)	(4,693,865)	(7,696,695)	(929,923)	(15,530
Advertising services	(6,861,241)	(7,286,807)	(8,882,933)	(1,073,246)	(26,622
<hr style="border-top: 1px dashed black;"/>					
Total cost of revenues	(21,303,384)	(17,778,161)	(25,580,502)	(3,090,664)	(71,677
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Gross profit	69,619,536	121,171,178	136,212,526	16,457,347	149,26
<hr style="border-top: 1px dashed black;"/>					
Operating expenses:					
Selling, general and					

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administrative expenses	(26,717,117)	(29,984,969)	(31,357,504)	(3,788,648)	(92,785)
Asset impairment loss	-	-	-	-	(746)
Research and development expenses	(3,643,946)	(4,095,277)	(6,651,157)	(803,600)	(13,808)
Share compensation cost	(296,612)	(27,964)	66,786	8,069	(1,898)
Class action settlement	-	-	-	-	(36,005)
Total operating expenses	(30,657,675)	(34,108,210)	(37,941,875)	(4,584,179)	(145,244)
Operating profit	38,961,861	87,062,968	98,270,651	11,873,168	4,011
Other income (expenses):					
Investment income	-	-	538,278	65,035	-
Interest income	1,611,700	3,640,487	3,986,707	481,678	7,561
Interest expense	-	-	-	-	(1,401)
Other, net	111,430	(121,222)	(141,983)	(17,155)	3,721
Profit before tax	40,684,991	90,582,233	102,653,653	12,402,726	13,900
Income tax	2,395,888	(6,492,105)	(8,573,459)	(1,035,855)	2,395
Net profit	43,080,879	84,090,128	94,080,194	11,366,871	16,305
Earnings per share, basic	0.01	0.03	0.03	0.01	0.01
Earnings per ADS, basic	1.39	2.69	3.01	0.36	0.36
Earnings per share, diluted	0.01	0.02	0.03	0.01	0.01
Earnings per ADS, diluted	1.35	2.44	2.88	0.35	0.35
Weighted average number of ordinary shares outstanding, basic	3,091,650,900	3,124,178,385	3,127,532,135	3,127,532,135	3,051,390
Weighted average number of ADS outstanding, basic	30,916,509	31,241,784	31,275,321	31,275,321	30,513
Weighted average number of ordinary shares outstanding, diluted	3,185,313,400	3,439,778,658	3,268,091,968	3,268,091,968	3,127,830
Weighted average number of ADS outstanding, diluted	31,853,134	34,397,787	32,680,920	32,680,920	31,278

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB 8.2767 on December 31, 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 Ended				
	December 31, 2002	September 30, 2003	December 31, 2003	December 31, 2003	De 31
	RMB	RMB	RMB	USD (Note 1)	
Cash flows from operating activities:					
Net profit	43,080,879	84,090,128	94,080,194	11,366,873	16
Adjustments for:					
Depreciation	5,564,302	4,344,976	4,493,899	542,958	21
Share compensation cost	773,641	27,964	(66,786)	(8,069)	3
Provision for doubtful debts	2,420,003	652,338	1,613,926	194,996	3
Write down of property, equipment and software	-	-	-	-	-
Amortization of issuance cost of convertible bonds	-	1,532,884	1,978,391	239,032	-
(Increase) Decrease in prepayments and other current assets	60,743	(5,431,696)	5,084,094	614,266	3
(Increase) Decrease in due from/to related parties	(8,283,073)	17,507,550	(4,945,452)	(597,515)	(23,
Decrease in deferred assets	277,499	-	-	-	-
(Increase) Decrease in deferred tax assets	(2,395,888)	149,574	(431,837)	(52,175)	(2,
Increase (Decrease) in accounts payable and other liabilities	(5,071,161)	(1,590,446)	(271,835)	(32,844)	(3,
Increase in salary and welfare payable	5,393,139	975,004	3,341,596	403,735	6
Net cash provided by operating activities	41,820,084	102,258,276	104,876,190	12,671,257	26
Cash flows from investing activities					
Increase in held-to-maturity investments	-	-	332,093,546)	(40,123,908)	-
Decrease in temporary cash investments	-	-	-	-	45
Purchase of property, equipment and software	(3,476,284)	(8,670,601)	(11,262,621)	(1,360,762)	(12,
Proceeds from disposal of convertible preference shares	-	-	-	-	9
(Increase) Decrease in non-current deposit	(1,065,912)	(40,500)	(116,707)	(14,101)	-
Net cash (used in) provided by investing activities	(4,542,196)	(8,711,101)	(343,472,874)	(41,498,771)	42
Cash flows from financing activities:					
Payment of short-term bank loans	-	-	-	-	(84,
Proceed from employee exercising stock options	1,264,444	4,324,582	603,301	72,891	3
Collection of subscriptions receivable for Series B preference shares issued	-	-	-	-	-

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in 2000	-	(38,157,538)	-	-	1
Increase (Decrease) in long-term payable	-	827,700,000	(114,866)	(13,878)	
Payment for issuance cost of convertible notes	-	(23,160,113)	-	-	

Net cash provided by (used in) financing activities	1,264,444	770,706,931	488,435	59,013	(78,000)

Effect of change rate changes on cash	15,435	-	-	-	

Net increase (decrease) in cash	38,557,767	864,254,106	(238,108,249)	(28,768,501)	(8,000)

Less: (Increase) Decrease in restricted cash	(4,754)	1,217,622	-	-	8,000

Cash, beginning of the year/quarter	521,516,698	728,706,065	1,594,177,793	192,610,315	47,000

Cash, end of the year/quarter	560,069,711	1,594,177,793	1,356,069,544	163,841,814	56,000
=====					
Supplemental disclosures of cash flow information:					
Cash paid during the year/quarter for income taxes	-	13,055,806	7,737,704	934,878	
=====					
Cash paid during the year/quarter for interest	-	-	-	-	1,000
=====					
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	773,641	27,964	(66,786)	(8,069)	3,000
=====					

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