

NETEASE.COM, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

| | <u>December 31, 2003</u> | <u>December 31, 2004</u> | <u>December 31, 2004</u> |
|--|------------------------------|------------------------------|------------------------------|
| | RMB | RMB (Note 2) | USD (Notes 1 and 2) |
| Assets | | | |
| Current assets: | | | |
| Cash | 1,356,069,544 | 2,123,891,537 | 256,617,113 |
| Held-to-maturity investments | 332,093,546 | 165,532,000 | 20,000,242 |
| Accounts receivable, net | - | 56,304,762 | 6,802,968 |
| Prepayments and other current assets | 19,749,369 | 20,722,068 | 2,503,723 |
| Due from related parties, net (Note 3) | 15,182,589 | - | - |
| Deferred tax assets | 9,669,543 | - | - |
| | <u>1,732,764,591</u> | <u>2,366,450,367</u> | <u>285,924,046</u> |
| Total current assets | | | |
| Non-current rental deposit | 1,430,544 | 2,140,394 | 258,611 |
| Property, equipment and software, net | 40,410,264 | 77,303,013 | 9,340,061 |
| Deferred assets | 12,086,693 | 4,246,624 | 513,094 |
| | <u>1,786,692,092</u> | <u>2,450,140,398</u> | <u>296,035,812</u> |
| Total assets | | | |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | 10,738,090 | 19,344,098 | 2,337,232 |
| Salary and welfare payable | 17,405,624 | 36,283,138 | 4,383,875 |
| Taxes payable | 15,976,342 | 44,009,342 | 5,317,386 |
| Deferred revenue | - | 134,896,863 | 16,298,781 |
| Due to related parties, net (Note 3) | 21,947,411 | - | - |
| Accrued liabilities | 11,698,761 | 22,961,861 | 2,774,344 |
| | <u>77,766,228</u> | <u>257,495,302</u> | <u>31,111,618</u> |
| Total current liabilities | | | |
| Long-term payable: | <u>827,901,449</u> | <u>839,399,578</u> | <u>101,419,631</u> |
| Total liabilities | <u>905,667,677</u> | <u>1,096,894,880</u> | <u>132,531,249</u> |
| Shareholders' equity: | | | |
| Ordinary shares, US\$0.0001 par value: | | | |
| 1,000,300,000,000 shares authorized, | | | |
| 3,128,958,189 shares issued and outstanding | | | |
| as of December 31, 2003, and 3,184,167,189 | | | |
| shares issued and outstanding as of December | | | |
| 31, 2004 | 2,589,756 | 2,635,419 | 318,422 |
| Additional paid-in capital | 993,254,740 | 1,023,954,160 | 123,718,258 |
| Statutory reserve | 33,699,834 | 90,882,108 | 10,980,742 |
| Deferred compensation | (69,175) | (13,835) | (1,672) |
| Translation adjustments | 210,838 | 210,838 | 25,474 |
| Retained earnings (Accumulated deficit) | (148,661,578) | 235,576,828 | 28,463,339 |
| | <u>881,024,415</u> | <u>1,353,245,518</u> | <u>163,504,563</u> |
| Total shareholders' equity | | | |
| Total liabilities and shareholders' equity | <u>1,786,692,092</u> | <u>2,450,140,398</u> | <u>296,035,812</u> |

NETEASE.COM, INC.
UNAUDITED NOTES TO FINANCIAL INFORMATION

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00 = RMB8.2765 on December 31, 2004 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: On January 17, 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46: Consolidation of Variable Interest Entities, an interpretation of ARB 51 ("FIN 46"), which was subsequently amended by a revised interpretation ("FIN 46-R"). According to the requirements of FIN 46 and FIN 46-R, the Company has evaluated its relationship with two previously unconsolidated related companies Guangzhou NetEase Computer System Co., Ltd. ("Guangzhou NetEase") and Guangyitong Advertising Co., Ltd. ("Guangyitong Advertising"), as well as Guangzhou Ling Yi Electronic Technology Limited ("Ling Yi"). Guangzhou NetEase, Guangyitong Advertising and Ling Yi are deemed to be variable interest entities ("VIEs") of the Company, and the Company is deemed to be the primary beneficiary of these three VIEs. The Company adopted the provisions of FIN 46 and consolidated Guangzhou NetEase and Guangyitong Advertising on a prospective basis from January 1, 2004 and Ling Yi from May 2004. Adoption of FIN 46 did not significantly affect the Company's financial statements.

Note 3: Upon the adoption of FIN 46 and consolidation of Guangzhou NetEase and Guangyitong Advertising, amounts due from/ to these two related parties have been eliminated in the consolidated financial statements of the Company. The major effect of consolidation of these companies on the Company's consolidated financial statements was the recognition of the VIEs' accounts receivable, deferred revenue and taxes payable and others, and a corresponding elimination of the due to and due from related parties balances. The net effect on shareholders' equity was nil. The following figures represent the due to and due from related parties balances as of December 31, 2003, and the corresponding balances of accounts receivable, deferred revenue and tax payable and others on the balance sheet of the VIEs as of that date:

| | December 31, 2003 |
|------------------------------------|----------------------|
| | RMB |
| Due from related parties, net | 15,182,589 |
| Due to related parties, net | (21,947,411) |
| | <hr/> |
| Amount due to related parties, net | (6,764,822) |
| | <hr/> |
| Represented by: | |
| Accounts receivable, net | 71,826,810 |
| Deferred revenue | (57,727,133) |
| Taxes payable and others, net | (20,864,499) |
| | <hr/> |
| Amount due to related parties, net | (6,764,822) |
| | <hr/> |

Note 4: The Company adopted the provisions of FIN 46 and consolidated its VIEs on a prospective basis in the Company's consolidated financial statements. The VIEs effectively function as pass-through entities used by the Company and its subsidiaries in providing services to the final customers. Under the series of agreements entered with the VIEs, substantially all of the revenue of the VIEs, net of the applicable business tax payable by the VIEs, are passed to the Company and its subsidiaries in form of technology and consulting service revenues. Prior to the consolidation of the VIEs in accordance with FIN 46, revenues in the

Company's financial statements represented revenues received by the Company and its subsidiaries from Guangzhou NetEase and Guangyitong Advertising, net of applicable business tax payable^(Note i) by these entities. The business tax presented in the Company's financial statements represented business tax payable by the Company and its subsidiaries on their technology and consulting service revenues received from Guangzhou NetEase and Guangyitong Advertising. After the consolidation of the VIEs in accordance with FIN 46, revenues in the Company's financial statements represent revenues generated from the final customers by the VIEs, before deducting any applicable business tax payable by the VIEs which is now presented under a separate line item after revenues. The business tax payable^(Note ii) by the Company and its subsidiaries on intra-group revenues from the VIEs is recorded under cost of revenue as it is considered a cost in providing the services by the consolidated group.

Note i: The business tax payable by Guangzhou NetEase and Guangyitong Advertising, which was netted against revenues in the Company's financial statements for the quarter ended December 31, 2003 (in which Guangzhou NetEase and Guangyitong Advertising were not consolidated) amounted to RMB9,065,630, segmentally analyzed as below:

| | Quarter Ended December 31, 2003 |
|---|---------------------------------------|
| | RMB |
| Business tax: | |
| Online game services | (4,332,859) |
| Advertising services | (2,575,964) |
| Wireless value-added and other fee-based premium services | (2,156,807) |
| | <u>(9,065,630)</u> |

Note ii: In addition, the business tax payable by the Company and its subsidiaries on intra-group revenues from the VIEs for the quarters ended September 30 and December 31, 2004 amounted to RMB11,583,072 and RMB12,593,438 respectively, segmentally analyzed as below:

| | Quarter Ended | |
|---|-----------------------|----------------------|
| | September 30, 2004 | December 31, 2004 |
| | RMB | RMB |
| Business tax: | | |
| Online game services | (8,024,608) | (9,840,072) |
| Advertising services | (2,125,078) | (1,890,915) |
| Wireless value-added and other fee-based premium services | (1,433,386) | (862,451) |
| | <u>(11,583,072)</u> | <u>(12,593,438)</u> |

Note 5: When calculating the fully diluted earnings per American Depositary Share (ADS) for the fourth quarter in 2004, the Company adopted the consensus reached on EITF 04-08, which is effective for periods ended

after December 15, 2004. EITF 04-08 is applicable to the Company because the conversion of its zero coupon convertible subordinated notes (the "Convertible Notes") depends on, among other things, whether the market price of the Company's American Depositary Shares exceeds a pre-scripted conversion price. Application of the consensus requires the dilutive impact of the Convertible Notes to be included in the calculation of diluted earnings per share, notwithstanding the fact that the market prices of the Company's American Depositary Shares in December 2003, September 2004 and December 2004 did not exceed the pre-scripted conversion price of the Convertible Notes. The EITF 04-08 has been retroactively applied such that the diluted earnings per American Depositary Share for all prior periods were restated, except for the quarter ended September 30, 2003 as the reported diluted earnings per American Depositary Share included the shares issuable upon conversion of the Convertible Notes because the market price condition for convertibility was satisfied in that quarter.

In accordance with the adoption of EITF 04-08, the weighted average number of diluted ordinary shares and American Depositary Shares outstanding for the purpose of calculating diluted earnings per share and diluted earnings per American Depositary Share for the three months ended December 31, 2003 and September 30, 2004, as well as for the year ended December 31, 2003, have been revised to include the contingently issuable shares in relation to the Company's Convertible Notes outstanding as of December 31, 2003 and September 30, 2004. The inclusion of these contingently issuable shares results in a decrease of US\$0.02 to each of the previously reported diluted earnings per American Depositary Share for the quarters ended December 31, 2003 and September 30, 2004 and for the year ended December 31, 2003, respectively.