

NETEASE.COM INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended				Year Ended		
	December 31, 2003	September 30, 2004	December 31, 2004	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2004
	RMB	RMB (Note 2)	RMB (Note 2)	USD (Notes 1 and 2)	RMB	RMB	USD (Notes 1 and 2)
Cash flows from operating activities:							
Net profit	94,080,194	109,060,644	130,155,408	15,725,900	322,872,724	441,420,682	53,334,223
Adjustments for:							
Depreciation	4,493,899	7,759,730	6,206,159	749,853	17,429,212	26,452,040	3,196,042
Share compensation cost	(66,786)	13,835	13,835	1,672	239,402	55,340	6,686
Provision for doubtful debts	1,613,926	2,281,603	3,997,127	482,949	3,551,682	7,953,883	961,020
Amortization of issuance cost of convertible bonds	1,978,391	1,959,980	1,959,981	236,813	3,511,275	7,840,069	947,269
(Increase) Decrease in accounts receivable	-	(15,656,612)	31,301,560	3,781,980	-	7,568,165	914,416
(Increase) Decrease in prepayments and other current assets	5,084,094	15,152,323	5,721,790	691,330	(5,798,662)	423,383	51,155
(Increase) Decrease in due from/to related parties	(4,945,452)	-	-	-	25,661,649	-	-
(Increase) Decrease in deferred tax assets	(431,837)	1,628,860	3,205,911	387,351	(7,273,655)	9,669,543	1,168,311
Increase (Decrease) in accounts payable and other liabilities	728,453	(3,307,968)	1,643,750	63,520	3,288,082	6,009,418	726,082
Increase (Decrease) in deferred revenue	-	30,926,344	2,497,165	301,718	(165,115)	77,169,729	9,323,957
Increase in salary and welfare payable	3,341,596	80,405	11,664,996	1,409,412	1,382,244	14,103,693	1,704,065
Increase (Decrease) in taxes payable	(4,863,531)	(4,905,904)	5,365,040	648,226	7,723,392	5,466,691	660,508
Increase (Decrease) in accrued liabilities	3,863,243	3,783,221	(751,413)	(90,789)	1,300,376	10,021,222	1,210,804
Net cash provided by operating Activities	104,876,190	148,776,461	202,981,309	24,389,935	373,722,606	614,153,858	74,204,538
Cash flows from investing activities							
(Increase) Decrease in held-to-maturity investments	(332,093,546)	281,362	82,929,919	10,019,926	(332,093,546)	166,561,546	20,124,636
Purchase of property, equipment and software	(11,262,621)	(19,740,474)	(9,464,912)	(1,008,507)	(27,824,900)	(60,142,252)	(7,266,630)
Decrease in due from related parties	-	9,000,000	-	-	-	-	-
Increase in non-current deposit	(116,707)	-	(271,324)	(32,782)	(364,632)	(584,810)	(70,659)
Net cash (used in) provided by investing activities	(343,472,874)	(10,459,112)	73,193,683	8,978,637	(360,283,078)	105,834,484	12,787,347
Cash flows from financing activities:							
Proceed from employees exercising stock options	603,301	800,957	7,232,657	873,879	15,064,146	30,745,083	3,714,745
Re-purchase of ordinary shares	-	-	-	-	(38,157,537)	-	-
Increase (Decrease) in other long-term payable	(114,866)	103,081	-	-	231,449	1,298,129	156,845
Proceeds from issuance of Zero Coupon Convertible Subordinated Notes	-	-	-	-	827,670,000	-	-
Payment for issuance cost of convertible notes	-	-	-	-	(23,437,986)	-	-
Net cash provided by financing activities	488,435	904,038	7,232,657	873,879	781,370,072	32,043,212	3,871,590
Effect of change rate changes on cash	-	-	-	-	(18,072)	-	-
Net increase (decrease) in cash	(238,108,249)	139,221,387	283,407,649	34,242,451	794,791,528	752,031,554	90,863,475
Add: Increase in restricted cash	-	-	-	-	1,208,305	-	-
Cash, beginning of the year/quarter	<u>1,594,177,793</u>	<u>1,701,262,501</u>	<u>1,840,483,888</u>	<u>222,374,662</u>	<u>560,069,711</u>	<u>1,371,859,983</u>	<u>165,753,638</u>
Cash, end of the year/quarter	<u>1,356,069,544</u>	<u>1,840,483,888</u>	<u>2,123,891,537</u>	<u>256,617,113</u>	<u>1,356,069,544</u>	<u>2,123,891,537</u>	<u>256,617,113</u>
Supplemental disclosures of cash flow information:							
Cash paid during the year/quarter for income taxes	7,737,704	4,783,610	5,778,940	698,235	20,793,510	24,374,799	2,945,061
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	(66,786)	13,835	13,835	1,672	239,402	55,340	6,686

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)
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Amount due to related parties, net	(6,764,822)
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Represented by:	
Accounts receivable, net	71,826,810
Deferred revenue	(57,727,133)
Taxes payable and others, net	(20,864,499)
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Amount due to related parties, net	(6,764,822)
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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.