

NETEASE.COM, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	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 (Note 2)	USD (Notes 1 and 2)
Revenues:							
Online game services					203,246,114		
	74,446,394	169,832,982	208,255,497	25,162,266		628,936,223	75,990,603
Advertising services	26,296,808	51,031,147	44,685,971	5,399,139	86,183,733	171,054,305	20,667,469
Wireless value-added and other fee-based premium services	67,986,356	32,539,861	24,939,955	3,013,346	279,659,170	158,310,317	19,127,689
Total Revenues	168,729,558	253,403,990	277,881,423	33,574,751	569,089,017	958,300,845	115,785,761
Business taxes (Note 4)	(6,936,530)	(14,825,004)	(16,163,775)	(1,952,973)	(26,954,502)	(54,703,018)	(6,609,439)
Total net revenues	161,793,028	238,578,986	261,717,648	31,621,778	542,134,515	903,597,827	109,176,322
Total cost of revenues	(25,580,502)	(48,784,246)	(54,340,040)	(6,565,582)	(85,462,717)	(183,803,395)	(22,207,865)
Gross profit	136,212,526	189,794,740	207,377,608	25,056,196	456,671,798	719,794,432	86,968,457
Operating expenses:							
Selling and marketing expenses	(11,752,345)	(60,407,604)	(41,587,393)	(5,024,756)	(43,135,804)	(152,842,334)	(18,467,025)
General and administrative expenses	(19,538,373)	(28,577,672)	(25,327,931)	(3,060,222)	(67,634,599)	(101,631,070)	(12,279,474)
Research and development expenses	(6,651,157)	(8,570,850)	(10,163,099)	(1,227,946)	(19,120,827)	(34,362,806)	(4,151,852)
Insurance claims settlement for the now-settled class action litigation	-	16,553,200	-	-	-	16,553,200	2,000,024
Total operating expenses	(37,941,875)	(81,002,926)	(77,078,423)	(9,312,924)	(129,891,230)	(272,283,010)	(32,898,327)
Operating profit	98,270,651	108,791,814	130,299,185	15,743,272	326,780,568	447,511,422	54,070,130
Other income (expenses):							
Investment income	538,278	906,364	698,746	84,425	538,278	3,522,169	425,563
Interest income	3,986,707	5,875,131	7,838,669	947,100	11,273,685	22,333,511	2,698,425
Interest expense	-	(846,210)	(1,065,217)	(128,704)	-	(3,877,129)	(468,450)
Other, net	(141,983)	-	(45,372)	(5,482)	5,410,171	504,428	61,309
Profit before tax	102,653,653	114,727,099	137,726,011	16,640,611	344,002,702	469,994,401	56,786,977
Income tax	(8,573,459)	(5,666,455)	(7,570,603)	(914,711)	(21,129,978)	(28,576,719)	(3,452,754)
Net profit	94,080,194	109,060,644	130,155,408	15,725,900	322,872,724	441,420,682	53,334,223
Earnings per share, basic	0.03	0.03	0.04	0.01	0.10	0.14	0.02
Earnings per ADS, basic	3.01	3.44	4.13	0.50	10.34	14.10	1.70
Earnings per share, diluted (Note 5)	0.03	0.03	0.04	0.01	0.10	0.13	0.02
Earnings per ADS, diluted (Note 5)	2.71	3.16	3.71	0.45	9.63	12.75	1.54
Weighted average number of ordinary shares outstanding, basic	3,127,532,135	3,167,067,332	3,176,762,632	3,176,762,632	3,122,257,952	3,157,841,781	3,157,841,781
Weighted average number of ADS outstanding, basic	31,275,321	31,670,673	31,767,626	31,767,626	31,222,580	31,578,418	31,578,418
Weighted average number of ordinary shares outstanding, diluted (Note 5)	3,475,776,288	3,476,659,180	3,538,848,713	3,538,848,713	3,353,659,328	3,491,430,437	3,491,430,437

Weighted average number of ADS
outstanding, diluted (Note 5)

34,757,763	34,766,592	35,388,487	35,388,487	33,536,593	34,914,304	34,914,304
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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
	<u>RMB</u>
Due from related parties, net	15,182,589
Due to related parties, net	<u>(21,947,411)</u>
Amount due to related parties, net	<u>(6,764,822)</u>
Represented by:	
Accounts receivable, net	71,826,810
Deferred revenue	(57,727,133)
Taxes payable and others, net	<u>(20,864,499)</u>
Amount due to related parties, net	<u>(6,764,822)</u>

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.