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NETEASE COM INC
Form 6-K
July 31, 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 July 2003

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.

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NETEASE.COM, INC.

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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: July 31, 2003

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Exhibit 99.1

[COMPANY LOGO]

Press Release

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NetEase.com Announces Strong Second Quarter Results

Financial Highlights for the second quarter 2003:

- Advertising revenues grow by 159.3% year-over-year to RMB20.8 million (US\$2.5 million)
- E-commerce and other revenues grow by 280.2% year-over-year to RMB115.3 million (US\$13.9 million)
- Continued revenue growth results in further enhanced gross margins of 78.9%
- Company achieves operating profit of RMB77.9 million (US\$9.4 million) and net profit of RMB75.8 million (US\$9.2 million), or US\$0.29 per American Depositary Share (basic)

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

The Company reported total revenues of RMB136.2 million (US\$16.5 million) for the second quarter, a 15.5% increase over total revenues of RMB117.9 million (US\$14.2 million) for the preceding quarter ended March 31, 2003 and a 253.8% increase over total revenues of RMB38.5 million (US\$4.6 million) for the corresponding period in 2002. The Company reported a 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, compared to the previous quarter's net profit of RMB68.9 million (US\$8.3 million), or US\$0.27 and US\$0.26 per basic and diluted American Depositary Share, respectively. The same quarter in the previous year had a net profit of RMB38,300 (US\$4,600).

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Advertising revenues were RMB20.8 million (US\$2.5 million) for the quarter ended June 30, 2003, representing a 73.6% increase over RMB12.0 million (US\$1.4 million) for the preceding quarter and a 159.3% increase over RMB8.0 million (US\$1.0 million) for the corresponding period a year ago.

Revenues from e-commerce and other services for the quarter were RMB115.3 million (US\$13.9 million), representing a 9.0% increase over the preceding quarter's RMB105.8 million (US\$12.8 million) and a 280.2% increase over RMB30.3 million (US\$3.7 million) for the corresponding period a year ago. The relatively slower growth quarter-over-quarter is largely due to the temporary closure of Internet cafes in parts of China during the SARS outbreak, which impacted user rates for online games.

The Company reported gross profit in the second quarter of RMB107.5 million (US\$13.0 million), increasing 17.1% over the previous quarter's RMB91.8 million (US\$11.1 million) and 389.1% over RMB22.0 million (US\$2.7 million) for the corresponding period a year ago. Strong revenue growth also favorably impacted gross margins, which increased from 77.9% in the preceding quarter to 78.9% in the second quarter.

Total operating expenses were RMB29.6 million (US\$3.6 million), a 4.7% increase

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from the previous quarter's RMB28.3 million (US\$3.4 million) and a 8.8% increase from the corresponding period a year ago of RMB27.2 million (US\$3.3 million). This increase is largely due to the write-back made in the first quarter of a provision for a loan previously made to an ex-employee of the Company, and to a lesser extent, the increase in legal and professional fees for regulatory compliance work in the second quarter. The Company made full provision for the loan in 2001. Upon the repayment of such loan in the first quarter, the Company reversed the provision previously made, which resulted in the reduction in the total operating expenses during that period.

The Company reported an operating profit of RMB77.9 million (US\$9.4 million) in the second quarter, representing continued improvement over last quarter's operating profit of RMB63.6 million (US\$7.7 million) and the previous year's second quarter's operating loss of RMB5.2 million (US\$0.6 million).

Despite higher income tax expense, the Company reported a net profit of RMB75.8 million (US\$9.2 million) in the second quarter, increasing 10.0% over the previous quarter's net profit of RMB68.9 million (US\$8.3 million) (which included a one-time other income of RMB5.5 million (US\$0.7 million)) and representing 1,977 times the net profit of RMB38,300 (US\$4,600) for the corresponding period a year ago. The increase in the effective tax rate during the second quarter is primarily due to a higher proportion of profit earned in a subsidiary company with a higher tax rate than the other group companies when compared to the first quarter.

As of June 30, 2003, the Company's total net cash balance was RMB729.9 million (US\$88.2 million), a 14.2% increase from the previous quarter's RMB639.3 million (US\$77.2 million). Operating cash flow was approximately RMB85.1 million (US\$10.3 million) during the quarter.

Commenting on these second quarter results, Ted Sun, acting Chief Executive Officer and Director of the Company said, "We believe that this past quarter demonstrated the strength of

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NetEase's diversified revenues strategy. Even with the outbreak of SARS, which had a temporary impact on the growth of our online games business, we were able to generate healthy increases in total revenues. The growth of our advertising business was due in part to the abilities of our advertising sales team and continued enhancements made to our content offerings. During the second quarter, for example, we revamped our Entertainment Channel (<http://ent.163.com>), Automobile Channel (<http://auto.163.com>), and Mobile Phone Channel (<http://mobile.163.com>). In the coming quarters, we will continue to work to grow our advertising business, and to improve and develop new content and service offerings in order to expand our user base, and provide innovative online marketing solutions to advertisers.

"Since the end of the SARS outbreak in late May, we are also pleased to note that the usage of our online games has quickly bounced back to previous levels, and we hope to achieve continued positive results from this business in the future. In the coming quarters, for example, we will be launching upgraded versions of our existing popular titles as well as offering new games so that we can foster enthusiasm among our current users and attract new ones to build upon our leading position."

Mr. Sun continued, "We continue to see significant opportunities in our SMS business, which remains a very significant revenue source for the company. In addition to building upon our wide platform of SMS services already offered to our consumers, we are working to develop new opportunities to further expand and

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enhance our service offerings, promotional campaigns and distribution channels.

"During the second quarter, we also took steps to build upon our already strong professional Board of Directors and executive management team. Bringing deep experience in the Chinese telecom industry as well as financial expertise, Donghua Ding joined our Board as an independent director in June 2003. In addition, Michael Tong, who has served on our Board as independent director since 1999, joined as an Executive Director and in this new capacity is focusing on overall management of the company as well as more specifically on our online games business."

Denny Lee, NetEase's Chief Financial Officer added, "We believe that NetEase continues to be in a sound financial position, as evidenced by continued improvements in our gross margins and operating margins. Recently, we also built upon an already strong cash position, as the Company completed its offering of US\$75.0 million in Zero Coupon Convertible Subordinate Notes on July 14, 2003, giving us added flexibility to take advantage of opportunities for expansion in the China market."

Users of the NetEase Web sites continued to grow, with 127 million registered accounts at the end of the second quarter, an increase of 11.5% over the 114 million accounts at the end of the previous quarter and a 95.5% increase over the 65 million accounts at the same time a year ago.

"In conclusion," said Mr. Sun, "the second quarter brought a number of positive developments to NetEase, notwithstanding the SARS outbreak and its impact on China. We are focused on continually innovating and bringing new services to both our users and partners which we expect will position us well for continued growth in the coming quarter and long term."

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On May 16, 2003, the definitive settlement of the class action litigation filed in the U.S. District Court for the Southern District of New York against NetEase and certain other parties was approved and declared final by the District Court. The aggregate settlement amount, which was paid to those persons who purchased NetEase's American Depositary Shares during the period from July 3, 2000 to August 31, 2001, was US\$4.35 million. This settlement has been reflected in the Company's third quarter and full-year financial statements for 2002 as a one-time charge.

** Note: The conversion of Renminbi (RMB) into U.S. dollars in this release is based on the exchange rate of USD1 = RMB8.2776. The percentages stated in this press release are calculated based on RMB.**

Web Cast

NetEase will host a conference call to discuss second quarter earnings at 7:30 pm Eastern Time today (Beijing/Hong Kong time: July 29, 2003 at 7:30am). 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 www.companyboardroom.com or by visiting any of the investor sites in CCBN's Individual Investor Network. Institutional investors can access the call via CCBN's password-protected event management site, StreetEvents (www.streetevents.com).

About NetEase

NetEase.com, Inc. is a leading China-based Internet technology company that

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pioneered the development of applications, services and other technologies for the Internet in China. The NetEase Web sites, operated by a company affiliate, organize and provide access to 18 content channels through distribution arrangements with more than one hundred international and domestic content providers. In addition, the NetEase Web sites offer a variety of products and services, including Instant Messaging (Popo), Dating, Love, Alumni and Personal Home Page. These products and services enable users to communicate about interests and areas of expertise. The sites also offer online interactive community services through community forums.

NetEase also offers short-messaging services, online multi-player games and e-mail services, as well as online mall technology services that provide opportunities for e-commerce and traditional businesses to establish an online e-commerce presence on the NetEase Web sites.

* * *

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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 on 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 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 statement on Form

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F-1, 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	June 30, 2003	June 30, 2003
	RMB	RMB	USD (Note 1)
Assets			
Current assets:			
Cash	560,069,711	728,706,065	88,033,496
Restricted cash	1,208,305	1,217,622	147,098
Prepayments and other current assets	6,110,689	11,839,622	1,430,321
Due from related parties, net	22,448,509	8,063,540	974,140
	-----	-----	-----
Total current assets	589,837,214	749,826,849	90,585,055
Non-current rental deposit	1,065,912	1,273,337	153,829
Property, equipment and software, net	26,379,182	25,680,523	3,102,412
Deferred tax assets	2,395,888	9,387,280	1,134,058
	-----	-----	-----
Total assets	619,678,196	786,167,989	94,975,354
	=====	=====	=====
Liabilities & Shareholders' Equity			
Current liabilities:			
Accounts payable and other liabilities	14,378,114	16,739,415	2,022,255
Salary and welfare payable	16,023,380	13,089,024	1,581,258
Taxes payable	8,252,950	19,900,665	2,404,159
	-----	-----	-----
Total current liabilities	38,654,444	49,729,104	6,007,672
Long-term payable	-	316,315	38,213
	-----	-----	-----
Total liabilities	38,654,444	50,045,419	6,045,885
	-----	-----	-----
Shareholders' equity:			
Ordinary shares, US\$0.0001 par value:			
1,000,300,000 shares authorized,			
3,100,162,537 shares issued and			
outstanding as of December 31, 2002,			
and 3,145,561,689 shares issued and			
outstanding as of June 30, 2003	2,566,543	2,604,111	314,597
Additional paid-in capital	1,049,651,354	1,059,750,050	128,026,246
Less: Subscriptions receivable	(33,113,848)	(33,113,848)	(4,000,416)
Deferred compensation	(474,739)	(196,515)	(23,741)

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Translation adjustments	228,910	210,838	25,471
Accumulated deficit	(437,834,468)	(293,132,066)	(35,412,688)
	-----	-----	-----
Total shareholders' equity	581,023,752	736,122,570	88,929,469
	-----	-----	-----
Total liabilities and shareholders' equity	619,678,196	786,167,989	94,975,354
	=====	=====	=====

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB8.2776 on June 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

	Quar	
	June 30, 2002	March 31, 2003
	RMB	RMB
Revenues:		
Advertising services	8,029,230	11,997,2
E-commerce and other services	30,337,297	105,775,9
Software licensing and related integration projects	118,154	156,8
	-----	-----
Total revenues	38,484,681	117,930,0
Sales and value-added taxes	(1,924,880)	(5,896,9
	-----	-----
Net revenues	36,559,801	112,033,0
	-----	-----
Cost of revenues:		
Advertising, e-commerce and other services	(14,107,720)	(20,216,9
Share compensation cost	(477,032)	
	-----	-----
Total cost of revenues	(14,584,752)	(20,216,9
	-----	-----
Gross profit	21,975,049	91,816,1
	-----	-----
Operating expenses:		
Selling, general and administrative expenses	(21,962,075)	(23,844,4

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Asset impairment loss	(746,857)	
Research and development expenses	(3,884,600)	(4,159,700)
Share compensation cost	(597,764)	(250,200)
	-----	-----
Total operating expenses	(27,191,296)	(28,254,500)
	-----	-----
Operating profit (loss)	(5,216,247)	63,561,600
Other income (expenses):		
Interest income	2,281,729	1,738,000
Interest expense	(212,382)	
Other, net	3,185,235	5,518,500
	-----	-----
Profit before tax	38,335	70,818,100
Income tax expenses	-	(1,902,600)
	-----	-----
Net profit	38,335	68,915,500
	=====	=====
Earnings per share, basic	0.01	0.
	=====	=====
Earnings per ADS, basic	0.01	2.
	=====	=====
Earnings per share, diluted	0.01	0.
	=====	=====
Earnings per ADS, diluted	0.01	2.
	=====	=====
Weighted average number of ordinary shares outstanding, basic	3,038,264,700	3,102,842,700
	=====	=====
Weighted average number of ADS outstanding, basic	30,382,647	31,028,400
	=====	=====
Weighted average number of ordinary shares outstanding, diluted	3,038,264,700	3,207,939,600
	=====	=====
Weighted average number of ADS outstanding, diluted	30,382,647	32,079,300
	=====	=====

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB8.2776 on June 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.

Exhibit 99.2

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Press Release

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NetEase.com, Inc. Announces Sale of Additional \$25 Million of Zero Coupon Convertible Subordinated Notes

(Beijing, July 31, 2003) - NetEase.com, Inc. (Nasdaq: NTES) today announced that the initial purchaser of its Zero Coupon Convertible Subordinated Notes due July 15, 2023 has exercised its option to acquire an additional \$25 million in aggregate principal amount of such notes in a private offering. As previously announced, the notes do not bear interest, have a zero yield to maturity and are convertible, subject to certain conditions, into NetEase's ordinary shares at a conversion price of \$0.4815 per ordinary share (equivalent to \$48.15 per American Depositary Share), subject to certain antidilution adjustments. NetEase intends to use the net proceeds from this offering for general corporate purposes, including potential future acquisitions.

The convertible subordinated notes were placed in a private placement transaction pursuant to Rule 144A under the Securities Act of 1933. Neither the convertible subordinated notes nor the ordinary shares of NetEase issuable upon conversion of the notes have been registered under the Securities Act and may not be offered or sold in the United States or to a U.S. person absent registration or an applicable exemption from the registration requirements.

This press release does not constitute an offer to sell or the solicitation of an offer to buy any security and shall not constitute an offer, solicitation or sale in any jurisdiction in which such offering would be unlawful.

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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 risk that we may not be able to satisfy our obligations under the indenture for the notes which could lead to a default on the notes and an adverse effect on our business and financial condition; the risk that we may not use the proceeds from this offering in a productive manner; and other risks outlined in our filings with the Securities and Exchange Commission, including our registration statement on Form F-1, as amended. NetEase does not undertake any obligation to update this forward-looking information, except as required under applicable law.