

Edgar Filing: NETEASE COM INC - Form 6-K

NETEASE COM INC  
Form 6-K  
April 29, 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 April 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.  
-----

Page 1 of 9 Pages

The index of exhibits may be found at Page 2

NETEASE.COM, INC.

Edgar Filing: NETEASE COM INC - Form 6-K

Form 6-K

TABLE OF CONTENTS

	Page
	----
Signature	Page 3
Press Release Regarding First Quarter Results dated April 29, 2003	Exhibit 99.1, Page 4

2

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: Chief Executive Officer and  
Director

Date: April 29, 2003

3

Exhibit 99.1

Press Release

-----  
Contact for Media and Investors:

Olive Wang  
NetEase.com, Inc.  
ir@corp.netease.com  
(86) 10-8518-0163, ext. 8243  
(86) 130-0192-3550

Jessica Barist Cohen  
Ogilvy Public Relations Worldwide  
jessica.cohen@ogilvy.com  
(86) 21-6218-3009, ext. 238

NetEase.com Announces Strong First Quarter Results

Continued revenue growth of 23.2% over preceding quarter results in further enhanced gross margins of 77.9%

Company achieves operating profit of RMB63.6 million (US\$7.7 million) and net

## Edgar Filing: NETEASE COM INC - Form 6-K

profit of RMB68.9 million (US\$8.3 million), or US\$0.27 per American Depositary Share (basic)

(Beijing - April 29, 2003) - NetEase.com, Inc. (Nasdaq: NTES), a leading Internet technology provider in China, today announced financial results for its first quarter ended March 31, 2003.

The Company reported total revenues of RMB117.9 million (US\$14.2 million) for the first quarter, a 23.2% increase over total revenues of RMB95.7 million (US\$11.6 million) for the preceding quarter ended December 31, 2002 and a 392.3% increase over total revenues of RMB24.0 million (US\$2.9 million) for the corresponding period in 2002. The Company reported a 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, compared to the previous quarter's net profit of RMB43.1 million (US\$5.2 million), or US\$0.17 and US\$0.16 per basic and diluted American Depositary Share respectively. The same quarter in the previous year had a net loss of RMB17.8 million (US\$2.1 million).

Advertising revenues were RMB12.0 million (US\$1.4 million) for the quarter ended March 31, 2003, representing a 3.7% decrease over RMB12.5 million (US\$1.5 million) for the preceding quarter but a 204.0% increase over RMB3.9 million (US\$0.5 million) for the corresponding period a year ago. Revenues from e-commerce and other services for the quarter were RMB105.8 million (US\$12.8 million), representing a 27.4% increase over the preceding quarter's RMB83.1 million (US\$10.0 million) and a 429.7% increase over RMB20.0 million (US\$2.4 million) for the

4

corresponding period a year ago. The increase in revenues from e-commerce and other services was primarily attributable to continued growing interest in NetEase's proprietary online game, "Westward Journey Online Version 2.0," as well as to steady growth in the Company's wireless short messaging services (SMS) business.

The Company reported gross profit in the first quarter of RMB91.8 million (US\$11.1 million), increasing 31.9% over the previous quarter's RMB69.6 million (US\$8.4 million) and 1143.4% over RMB7.4 million (US\$0.9 million) for the corresponding period a year ago. Strong revenue growth also favorably impacted gross margins, which increased from 72.7% in the preceding quarter to 77.9% in the first quarter.

Total operating expenses were RMB28.3 million (US\$3.4 million), a 7.8% decrease from the previous quarter's RMB30.7 million (US\$3.7 million) but a 7.0% increase from the corresponding period a year ago of RMB26.4 million (US\$3.2 million). The Company reported an operating profit of RMB63.6 million (US\$7.7 million) in the first quarter, representing continued improvement over last quarter's operating profit of RMB39.0 million (US\$4.7 million) and the previous year's first quarter's operating loss of RMB19.0 million (US\$2.3 million).

Other income for the first quarter of 2003 of RMB5.5 million (US\$0.7 million) primarily represents the repayment of loans the Company made to four related parties, the proceeds of which were used by those related parties to purchase the Company's American Depositary Shares. The Company previously made full provision for these loans in the Company's audited consolidated financial statements for the year 2001, which impacted the Company's statement of operations in that period.

As of March 31, 2003, the Company's total net cash balance was RMB639.3 million

## Edgar Filing: NETEASE COM INC - Form 6-K

(US\$77.2 million), a 13.9% increase from the previous quarter's RMB561.3 million (US\$67.8 million). Operating cash flow was RMB81.4 million (US\$ 9.8 million) during the quarter.

Commenting on these first quarter results, Ted Sun, acting Chief Executive Officer and Director of the Company said, "I am very pleased to announce another strong quarter for NetEase, which we believe demonstrates the continued success of our strategy of focusing on a diversified range of revenue streams and innovative customer offerings. During the first quarter, our online games business continued to exhibit good growth, due largely to the success of our in-house-developed title, 'Westward Journey Online Version 2.0.' We believe that our proprietary online game development capabilities provide us with a unique competitive advantage in this area and that this revenue segment will continue to do well, especially as we improve our current games and develop new ones for our customers.

Our wireless SMS business is also growing steadily. Taking advantage of the fast-growing user rates for this service, we are continuously developing additional applications for SMS, as well as for emerging telecommunication technologies such as Multimedia Messaging Service (MMS), which leverage our existing Internet and SMS products. We expect strong potential from this area and we believe we are positioning ourselves well to capture future business opportunities as the technology evolves.

5

Although advertising revenues, which are typically sluggish in the first quarter of each year, had a less strong performance in comparison to last quarter, the outlook for this segment is still positive and we will strive to achieve steady growth going forward. We continue to see advertising as an important revenue source and will continue to develop innovative marketing and promotion solutions for our advertisers in order to leverage our advertising real estate."

Sun continued, "We remain dedicated to providing the highest quality service to our consumers, as evidenced by the establishment of our 24 hour/7 day a week customer service center during the quarter. This focus on service and customer relations will continue in the future."

Denny Lee, NetEase's Chief Financial Officer added, "From a financial point of view, this past quarter was a very healthy one for the Company, and revenue growth favorably impacted our gross margins and operating margins. Looking ahead, we will remain focused on controlling costs and maintaining sustainable, long-term profitability."

Users of the NetEase Web sites continued to grow, with 114 million registered accounts at the end of the first quarter, an increase of 19% over the 96 million accounts at the end of the previous quarter and a 114% increase over the 53 million accounts at the same time a year ago.

Mr. Sun concluded, "Our goal is to build on the strength of this first quarter to grow all business areas - Internet Portal, Wireless Value-added Services and Online Games - while continuing to enhance value for shareholders."

NetEase will host a conference call to discuss first quarter earnings at 8:00pm Eastern Time today (Beijing/Hong Kong time: April 29, 2003 at 8:00am). The management team will discuss quarterly results and highlights, and answer questions. The dial-in number for the call is 719-457-2727. A replay will be available from 10:00pm Eastern time on April 28, 2003 until 10:00pm Eastern time on May 5 2003, by dialing 719-457-0820 with access code 104390. Additionally, a

## Edgar Filing: NETEASE COM INC - Form 6-K

live and archived web cast of this call will be available on the NetEase corporate web site at <http://corp.netease.com>.

-----  
\*\*Note: The conversion of Renminbi (RMB) into U.S. dollars in this release is based on the exchange rate of US\$1 = RMB8.2774. 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. 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.

6

At the end of March 2003, the number of registered users of the NetEase Web sites reached 114 million. The average number of daily pageviews was over 370 million in March 2003.

NetEase also offers online multi-player games, short messaging and e-mail services, as well as auction and 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.

-----  
\* \* \*

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; the risk that the settlement of the class action litigation involving NetEase will not become final for whatever reason, in which case NetEase may have to incur significant additional expenses in defending against the litigation and possibly pay damages in excess of the settlement amount; 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

## Edgar Filing: NETEASE COM INC - Form 6-K

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 possibility that NetEase and its board of directors have not implemented effective or complete steps to ensure that the circumstances which led to the restatement of NetEase's financial statements for the year ended December 31, 2000 will not recur; 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; 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 F-1, as amended. NetEase does not undertake any obligation to update this forward-looking information, except as required under applicable law.

7

NETEASE.COM, INC.  
UNAUDITED CONSOLIDATED BALANCE SHEETS

	December 31, 2002	March 31, 2003	March 31, 2003
	----- RMB	----- RMB	----- USD (Note
<b>Assets</b>			
<b>Current assets:</b>			
Cash	560,069,711	638,087,620	77,087,9
Restricted cash	1,208,305	1,212,761	146,5
Prepayments and other current assets	6,110,689	9,381,194	1,133,3
Due from related parties, net	22,448,509	14,289,740	1,726,3
Total current assets	589,837,214	662,971,315	80,094,1
Non-current rental deposit	1,065,912	1,107,201	133,7
Property, equipment and software, net	26,379,182	27,063,932	3,269,6
Deferred tax assets	2,395,888	5,500,000	664,4
Total assets	619,678,196	696,642,448	84,161,9
<b>Liabilities &amp; Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Accounts payable	3,814,614	3,814,600	460,8
Salary and welfare payable	16,023,380	14,968,043	1,808,3
Taxes payable	8,252,950	13,345,476	1,612,2

Edgar Filing: NETEASE COM INC - Form 6-K

Deferred revenue	165,115	8,250	9
Accrued liabilities	10,398,385	12,741,118	1,539,2
	-----	-----	-----
Total current liabilities	38,654,444	44,877,487	5,421,6
	-----	-----	-----
Shareholders' equity:			
Ordinary shares, US\$0.0001 par value:			
1,000,000,000,000 shares			
authorized, 3,100,162,537 shares			
issued and outstanding as of			
December 31, 2002, and			
3,117,037,889 shares issued and			
outstanding as of March 31, 2003	2,566,543	2,580,108	311,7
Additional paid-in capital	1,049,651,354	1,051,231,308	127,000,1
Less: Subscriptions receivable	(33,113,848)	(33,113,848)	(4,000,51
Deferred compensation	(474,739)	(224,479)	(27,12
Translation adjustments	228,910	210,839	25,4
Accumulated deficit	(437,834,468)	(368,918,967)	(44,569,42
	-----	-----	-----
Total shareholders' equity	581,023,752	651,764,961	78,740,30
	-----	-----	-----
Total liabilities and shareholders'	619,678,196	696,642,448	84,161,98
	=====	=====	=====

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB8.2774 on March 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.

8

NETEASE.COM, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarter Ended			
	March 31, 2002	December 31, 2002	March 31, 2003	March 31, 2003
	RMB	RMB	RMB	USD (Note 1)
Revenues:				
Advertising services	3,946,530	12,454,490	11,997,296	1,449,404
E-commerce and other services	19,968,083	83,052,025	105,775,901	12,778,880
Software licensing and related integration projects	39,385	226,348	156,865	18,951
	-----	-----	-----	-----
Total revenues	23,953,998	95,732,863	117,930,062	14,247,235
Sales and value-added taxes	(1,197,700)	(4,809,943)	(5,896,988)	(712,420)
	-----	-----	-----	-----

Edgar Filing: NETEASE COM INC - Form 6-K

Net revenues	22,756,298	90,922,920	112,033,074	13,534,815
-----				
Cost of revenues:				
Advertising, e-commerce and other services	(14,894,747)	(20,826,355)	(20,216,951)	(2,442,428)
Share compensation cost	(477,032)	(477,029)	-	
-----				
Total cost of revenues	(15,371,779)	(21,303,384)	(20,216,951)	(2,442,428)
-----				
Gross profit	7,384,519	69,619,536	91,816,123	11,092,387
-----				
Operating expenses:				
Selling, general and administrative expenses	(22,202,753)	(26,717,117)	(23,844,491)	(2,880,674)
Research and development expenses	(3,565,372)	(3,643,946)	(4,159,767)	(502,545)
Share compensation cost	(645,657)	(296,612)	(250,260)	(30,234)
-----				
Total operating expenses	(26,413,782)	(30,657,675)	(28,254,518)	(3,413,453)
-----				
Operating profit (loss)	(19,029,263)	38,961,861	63,561,605	7,678,934
Other income (expenses):				
Interest income	1,949,086	1,611,700	1,738,018	209,971
Interest expense	(996,735)	-	-	-
Other, net	283,199	111,430	5,518,548	666,701
-----				
Profit (loss) before tax	(17,793,713)	40,684,991	70,818,171	8,555,606
Income tax (charge) credit	-	2,395,888	(1,902,670)	(229,863)
-----				
Net profit (loss)	(17,793,713)	43,080,879	68,915,501	8,325,743
=====				
Earnings (Net loss) per share, basic	(0.01)	0.01	0.02	0.01
=====				
Earnings (Net loss) per ADS, basic	(0.59)	1.39	2.22	0.27
=====				
Earnings (Net loss) per share, diluted	(0.01)	0.01	0.02	0.01
=====				
Earnings (Net loss) per ADS, diluted	(0.59)	1.35	2.15	0.26
=====				
Weighted average number of ordinary shares outstanding, basic	3,024,318,700	3,091,650,900	3,102,842,755	3,102,842,755
=====				
Weighted average number of				



Edgar Filing: NETEASE COM INC - Form 6-K

ADS outstanding, basic	30,243,187	30,916,509	31,028,428	31,028,428
=====				
Weighted average number of ordinary shares outstanding, diluted	3,024,318,700	3,185,313,400	3,207,939,611	3,207,939,611
=====				
Weighted average number of ADS outstanding, diluted	30,243,187	31,853,134	32,079,396	32,079,396
=====				

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB8.2774 on March 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.