

NETEASE.COM, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

	December 31, 2003	March 31, 2004	March 31, 2004
	RMB	RMB	USD (Note 3)
Assets			
Current assets:			
Cash	1,356,069,544	1,680,318,181	203,010,533
Held-to-maturity investments	332,093,546	166,263,413	20,087,400
Accounts receivable, net	-	77,368,710	9,347,434
Prepayments and other current assets	19,749,369	25,254,979	3,051,224
Due from related parties, net (Note 2)	15,182,589	-	-
Deferred tax assets	9,669,543	7,271,496	878,518
Total current assets	1,732,764,591	1,956,476,779	236,375,109
Non-current rental deposit	1,430,544	2,096,946	253,346
Property, equipment and software, net	40,410,264	48,578,914	5,869,145
Deferred assets	12,086,693	10,127,056	1,223,518
Total assets	1,786,692,092	2,017,279,695	243,721,118
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	10,738,090	22,677,649	2,739,838
Salary and welfare payable	17,405,624	19,882,758	2,402,170
Taxes payable	15,976,343	45,046,370	5,442,355
Deferred revenue	-	79,677,405	9,626,363
Due to related parties, net (Note 2)	21,947,411	-	-
Accrued liabilities	11,698,760	16,560,452	2,000,780
Total current liabilities	77,766,228	183,844,634	22,211,506
Long-term payable:	827,901,449	839,062,620	101,372,794
Total liabilities	905,667,677	1,022,907,254	123,584,300
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 3,143,312,789			
shares issued and outstanding as of March 31,			
2004	2,589,756	2,601,731	314,333
Additional paid-in capital	993,254,740	1,002,664,921	121,138,688
Statutory reserve	33,699,834	33,699,834	4,071,503
Deferred compensation	(69,175)	(55,340)	(6,686)
Translation adjustments	210,838	210,838	25,473
Accumulated deficit	(148,661,578)	(44,749,543)	(5,406,493)
Total shareholders' equity	881,024,415	994,372,441	120,136,818
Total liabilities and shareholders' equity	1,786,692,092	2,017,279,695	243,721,118

Note 1: 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. and Guangyitong Advertising Co., Ltd.. Guangzhou NetEase Computer System Co., Ltd. and Guangyitong Advertising Co., Ltd. are concluded as variable interest entities ("VIE") of the Company. And the

Company is concluded to be the primary beneficiary of these two VIEs. Effective January 1, 2004, the Company adopted the provisions of FIN 46 and consolidated these two VIEs on a prospective basis in the Company's consolidated financial statements. Adoption of FIN 46 did not significantly affect the company's financial statements.

Note 2: Upon the adoption of FIN 46 and consolidation of Guangzhou NetEase Computer System Co., Ltd. and Guangyitong Advertising Co., Ltd., 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 tax 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 VIE's as of that date:

	RMB
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><u>(6,764,822)</u></u>
Represented by:	
Accounts receivable, net	71,826,810
Deferred revenue	(57,727,133)
Tax payable and others, net	<u>(20,864,499)</u>
Amount due to related parties, net	<u><u>(6,764,822)</u></u>

Note 3: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00=RMB 8.2770 on March 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.

NETEASE.COM, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarter Ended			
	March 31, 2003	December 31, 2003	March 31, 2004	March 31, 2004
	RMB	RMB	RMB	USD (Note 2)
Net revenues:				
Online game services	34,277,552	70,728,416	99,999,719	12,081,638
Wireless value-added and other services	66,358,091	64,587,038	56,674,565	6,847,235
Advertising services	11,397,431	26,477,574	30,147,494	3,642,322
Total net revenues	112,033,074	161,793,028	186,821,778	22,571,195
Cost of revenues:				
Online game services	(4,470,702)	(7,696,695)	(9,837,708)	(1,188,560)
Wireless value-added and other services	(10,329,603)	(9,000,874)	(8,510,279)	(1,028,184)
Advertising services	(5,416,646)	(8,882,933)	(10,105,410)	(1,220,902)
Total cost of revenues	(20,216,951)	(25,580,502)	(28,453,397)	(3,437,646)
Gross profit	91,816,123	136,212,526	158,368,381	19,133,549
Operating expenses:				
Selling, general and administrative expenses	(23,844,491)	(31,357,504)	(43,340,619)	(5,236,271)
Research and development expenses	(4,159,767)	(6,651,157)	(7,202,306)	(870,159)
Share compensation cost	(250,260)	66,786	(13,835)	(1,672)
Total operating expenses	(28,254,518)	(37,941,875)	(50,556,760)	(6,108,102)
Operating profit	63,561,605	98,270,651	107,811,621	13,025,447
Other income (expenses):				
Investment income	-	538,278	1,363,507	164,734
Interest income	1,738,018	3,986,707	3,782,606	457,002
Interest expense	-	-	(931,171)	(112,501)
Other, net	5,518,548	(141,983)	1,800	218
Profit before tax	70,818,171	102,653,653	112,028,363	13,534,900
Income tax	(1,902,670)	(8,573,459)	(8,116,327)	(980,588)
Net profit	68,915,501	94,080,194	103,912,036	12,554,312
Earnings per share, basic	0.02	0.03	0.03	0.01
Earnings per ADS, basic	2.22	3.01	3.32	0.40
Earnings per share, diluted	0.02	0.03	0.03	0.01
Earnings per ADS, diluted	2.15	2.88	3.18	0.38
Weighted average number of ordinary shares outstanding, basic	3,102,842,755	3,127,532,135	3,132,850,697	3,132,850,697
Weighted average number of ADS outstanding, basic	31,028,428	31,275,321	31,328,507	31,328,507
Weighted average number of ordinary shares outstanding, diluted	3,207,939,611	3,268,091,968	3,265,989,154	3,265,989,154
Weighted average number of ADS outstanding, diluted	32,079,396	32,680,920	32,659,892	32,659,892

Note 1: 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. and Guangyitong Advertising Co., Ltd.. Guangzhou NetEase Computer System Co., Ltd. and Guangyitong Advertising Co., Ltd. are concluded as variable interest entities ("VIE") of the Company. And the Company is concluded to be the primary beneficiary of these two VIEs. Effective January 1, 2004, the Company adopted the provisions of FIN 46 and consolidated these two VIEs on a prospective basis in the Company's consolidated financial statements. Adoption of FIN 46 did not significantly affect the company's financial statements.

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NETEASE.COM INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended			
	March 31, 2003	December 31, 2003	March 31, 2004	March 31, 2004
	RMB	RMB	RMB	USD (Note 2)
Cash flows from operating activities:				
Net profit	68,915,501	94,080,194	103,912,036	12,554,311
Adjustments for:				
Depreciation	3,593,182	4,493,899	5,744,954	694,087
Share compensation cost	250,260	(66,786)	13,835	1,671
Provision for doubtful debts	1,469,529	1,613,926	1,594,981	192,700
Amortization of issuance cost of convertible bonds	-	1,978,391	1,959,637	236,757
Increase in accounts receivable	-	-	(7,136,881)	(862,255)
(Increase) Decrease in prepayments and other current assets	(3,270,505)	5,084,094	(4,109,527)	(496,500)
(Increase) Decrease in due from/to related parties	6,689,240	(4,945,452)	-	-
(Increase) Decrease in deferred tax assets	(3,104,112)	(431,837)	2,398,047	289,724
Increase (Decrease) in accounts payable and other liabilities	7,278,380	(271,835)	21,765,133	2,629,593
Increase in deferred revenue	-	-	21,950,272	2,651,960
Increase (Decrease) in salary and welfare payable	(1,055,337)	3,341,596	(2,296,687)	(277,478)
Net cash provided by operating activities	<u>80,766,138</u>	<u>104,876,190</u>	<u>145,795,800</u>	<u>17,614,570</u>
Cash flows from investing activities				
(Increase) Decrease in held-to-maturity investments	-	(332,093,546)	165,830,133	20,035,053
Purchase of property, equipment and software	(4,277,932)	(11,262,621)	(12,078,529)	(1,459,288)
(Increase) Decrease in non-current deposit	(41,289)	(116,707)	(541,362)	(65,406)
Net cash (used in) provided by investing activities	<u>(4,319,221)</u>	<u>(343,472,874)</u>	<u>153,210,242</u>	<u>18,510,359</u>
Cash flows from financing activities:				
Proceed from employee exercising stock options	1,600,297	603,301	9,422,157	1,138,354
Increase (Decrease) in long-term payable from issuance of convertible bonds	-	(114,866)	30,000	3,625
Net cash provided by financing activities	<u>1,600,297</u>	<u>488,435</u>	<u>9,452,157</u>	<u>1,141,979</u>
Effect of exchange rate changes on cash	<u>(24,849)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	78,022,365	(238,108,249)	308,458,198	37,266,908
Less: (Increase) Decrease in restricted cash	(4,456)	-	-	-
Cash, beginning of the quarter	<u>560,069,711</u>	<u>1,594,177,793</u>	<u>1,371,859,983</u>	<u>165,743,625</u>
Cash, end of the quarter	<u><u>638,087,620</u></u>	<u><u>1,356,069,544</u></u>	<u><u>1,680,318,181</u></u>	<u><u>203,010,533</u></u>
Supplemental disclosures of cash flow information:				
Cash paid during the quarter for income taxes	<u>-</u>	<u>7,737,704</u>	<u>7,610,124</u>	<u>919,430</u>
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	<u>250,260</u>	<u>(66,786)</u>	<u>13,835</u>	<u>1,671</u>

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