

NetEase, Inc.  
Form 20-F  
April 24, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2013**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from                      to**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report . . . . .

Commission file number : 000-30666

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**NETEASE, INC.**

(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**26/F, SP Tower D**

**Tsinghua Science Park Building 8**

**No. 1 Zhongguancun East Road, Haidian District**

**Beijing 100084, People's Republic of China**

(Address of principal executive offices)

**Onward Choi**

**26/F, SP Tower D**

**Tsinghua Science Park Building 8**

**No. 1 Zhongguancun East Road, Haidian District**

**Beijing 100084, People's Republic of China**

**Phone (86 10) 8255-8163**

**Facsimile (86 10) 8261 8627**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

**American Depositary Shares, each representing 25 ordinary shares, par value US\$0.0001 per share,**

**NASDAQ Global Select Market**

(Title of Each Class and Name of Each Exchange on Which Registered)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**NONE**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**NONE**  
(Title of Class)

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Table of Contents

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

3,250,283,956 ordinary shares, par value US\$0.0001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15) (d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

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If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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Table of Contents

## TABLE OF CONTENTS

<b><u>INTRODUCTION</u></b>		1
<b><u>PART I</u></b>		2
<u>Item 1.</u>	<u>Identity of Directors, Senior Management and Advisers</u>	2
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>	2
<u>Item 3.</u>	<u>Key Information</u>	2
<u>Item 4.</u>	<u>Information on the Company</u>	24
<u>Item 4A.</u>	<u>Unresolved Staff Comments</u>	44
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>	44
<u>Item 6.</u>	<u>Directors, Senior Management and Employees</u>	66
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>	73
<u>Item 8.</u>	<u>Financial Information</u>	76
<u>Item 9.</u>	<u>The Offer and Listing</u>	77
<u>Item 10.</u>	<u>Additional Information</u>	77
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	86
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	86
<b><u>PART II</u></b>		88
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	88
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	88
<u>Item 15.</u>	<u>Controls and Procedures</u>	88
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	88
<u>Item 16B.</u>	<u>Code of Ethics</u>	88
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	88
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	89
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	89
<u>Item 16F.</u>	<u>Change in Registrants – Certifying Accountant</u>	89
<u>Item 16G.</u>	<u>Corporate Governance</u>	90
<u>Item 16H.</u>	<u>Mine Safety Disclosure</u>	90
<b><u>PART III</u></b>		91
<u>Item 17.</u>	<u>Financial Statements</u>	91
<u>Item 18.</u>	<u>Financial Statements</u>	91
<u>Item 19.</u>	<u>Exhibits</u>	91

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Table of Contents

**INTRODUCTION**

This annual report on Form 20-F includes our audited consolidated financial statements as of December 31, 2012 and 2013 and for the years ended December 31, 2011, 2012 and 2013.

**Forward-Looking Information**

This annual report on Form 20-F 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 the online game market will not continue to grow or that we will not be able to maintain our leading position in that market, which could occur if, for example, our new online games do not become as popular as management anticipates;
- the risk that we will not be successful in our product diversification efforts, including our focus on item- and fee-based games and entry into strategic licensing arrangements;
- the risk of changes in Chinese government regulation of the online game market that limit future growth of our revenue or causes revenue to decline;
- the risk that we may not be able to continuously develop new and creative online services or that we will not be able to set, or follow in a timely manner, trends in the market;
- the risk that the Internet advertising market in China will not continue to grow and will remain subject to intense competition;
- the risk that we will not be able to control our expenses in future periods;

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- the impact of any future public health problem in China, including avian influenza, severe acute respiratory syndrome, or SARS, or Influenza A (H1N1), or H1N1;
- governmental uncertainties (including possible changes in the effective tax rates applicable to NetEase and its subsidiaries and affiliates), general competition and price pressures in the marketplace;
- the risk that fluctuations in the value of the Renminbi with respect to other currencies could adversely affect our business and financial results;
- the risk that current or future appointees to management are not effective in their respective positions; and
- other risks outlined in our filings with the Securities and Exchange Commission, or the SEC.

We do not undertake any obligation to update this forward-looking information, except as required under applicable law.



Table of Contents**PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data**

The following table presents the selected consolidated financial information for our business. You should read the following information in conjunction with Item 5 Operating and Financial Review and Prospects below. The following data for the years ended December 31, 2011, 2012 and 2013 and as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements for those years, which were prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and should be read in conjunction with those statements, which are included in this annual report beginning on page F-1. The following data for the years ended December 31, 2009 and 2010 and as of December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements for those years, which were prepared in accordance with U.S. GAAP and are not included in this annual report.

	2009 RMB	2010 RMB	For the year ended December 31, 2011 RMB		2012 RMB	2013 RMB	2013 US\$ (Note 1)
			(in thousands, except per share/ADS data)				
<b>Statement of Operations and Comprehensive Income Data:</b>							
Revenues:							
Online game services	3,368,689	4,944,439	6,552,431	7,287,063	8,308,618	1,372,486	
Advertising services	383,560	633,209	795,422	850,157	1,094,623	180,819	
E-mail, wireless value-added services and others	71,202	82,141	124,898	242,741	368,014	60,792	
	3,823,451	5,659,789	7,472,751	8,379,961	9,771,255	1,614,097	
Sales tax expense	(66,504)	(152,120)	(182,099)	(179,005)	(575,080)	(94,996)	
Net revenues	3,756,947	5,507,669	7,290,652	8,200,956	9,196,175	1,519,101	

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Cost of revenues	(972,374)	(1,798,841)	(2,372,288)	(2,578,067)	(2,478,516)	(409,422)
Gross profit	2,784,573	3,708,828	4,918,364	5,622,889	6,717,659	1,109,679
Operating expenses:						
Selling and marketing expenses	(351,661)	(656,976)	(849,205)	(906,707)	(1,093,612)	(180,652)
General and administrative expenses	(165,205)	(189,621)	(280,227)	(286,223)	(349,832)	(57,788)
Research and development expenses	(244,272)	(317,929)	(465,490)	(718,315)	(921,618)	(152,240)
Total operating expenses	(761,138)	(1,164,526)	(1,594,922)	(1,911,245)	(2,365,062)	(390,680)
Operating profit	2,023,435	2,544,302	3,323,442	3,711,644	4,352,597	718,999
Other income (expenses):						
Investment income	354	290	14,128	43,770	37,255	6,154
Interest income	128,168	141,001	258,053	423,634	506,181	83,615
Exchange gains (losses)	9,617	(89,488)	(79,058)	(554)	(15,348)	(2,535)
Other, net	(10,934)	(19,634)	99,164	99,718	95,136	15,715
Income before tax	2,150,640	2,576,471	3,615,729	4,278,212	4,975,821	821,948
Income tax	(313,861)	(344,446)	(392,756)	(691,642)	(530,603)	(87,650)
Net income	1,836,779	2,232,025	3,222,973	3,586,570	4,445,218	734,298
Add: Net loss (income) attributable to noncontrolling interests						
	13,657	3,747	11,291	50,882	(1,308)	(216)
Net income attributable to NetEase, Inc. s shareholders	1,850,436	2,235,772	3,234,264	3,637,452	4,443,910	734,082
Comprehensive income	1,836,779	2,232,025	3,222,973	3,586,570	4,445,218	734,298
Add: Comprehensive loss (income) attributable to noncontrolling interests						
	13,657	3,747	11,291	50,882	(1,308)	(216)
Comprehensive income attributable to NetEase, Inc. s shareholders	1,850,436	2,235,772	3,234,264	3,637,452	4,443,910	734,082
Cash dividend per share				0.25		
Net income attributable to NetEase, Inc. s shareholders per share, basic						
	0.57	0.69	0.99	1.11	1.37	0.23
Net income attributable to NetEase, Inc. s shareholders per share, diluted						
	0.57	0.69	0.99	1.11	1.36	0.23
Net income attributable to NetEase, Inc. s shareholders per ADS, basic						
	14.34	17.22	24.76	27.70	34.21	5.65
Net income attributable to NetEase, Inc. s shareholders per ADS, diluted						
	14.24	17.14	24.68	27.65	34.12	5.64
Weighted average number of ordinary shares outstanding, basic						
	3,225,250	3,246,426	3,265,550	3,282,663	3,247,874	3,247,874
Weighted average number of ADS outstanding, basic						
	129,010	129,857	130,622	131,307	129,915	129,915
Weighted average number of ordinary shares outstanding, diluted						
	3,248,983	3,261,886	3,276,704	3,288,330	3,256,297	3,256,297
Weighted average number of ADS outstanding, diluted						
	129,959	130,475	131,068	131,533	130,252	130,252
Share-based compensation cost included in:						
Cost of revenues	9,021	37,342	57,318	100,540	165,708	