

A. Executive Summary

Company Description

NetEase, Inc. (9999.HK), is a leading internet and game service provider enterprise in China with a market capitalization of HK\$ 460.82B. The company's main businesses include developing and operating mobile and PC games and other ancillary services. In 2023, the net profit of NetEase increased 41.8% YoY to HKD\$ 32.51B. NetEase has also been expanding its business, NetEase's service offering included its majority-controlled subsidiaries YouDao (NYSE: DAO, a company that offers online learning platform), Cloud Music (9899.HK, a company that offers online music platform) and Yanxuan, NetEase's private label consumer lifestyle brand.

Key Takeaways

Steady Expanding Market: The global gaming market is rapidly expanding, with the player base expected to nearly **double** from 764 million in 2017 to 1.47 billion by 2027, supported by rising digital connectivity and pandemic-driven demand. This growth, alongside a steady increase in spending per user, offers significant opportunities for NetEase.

Global Gaming Factory: NetEase's in-house productions have achieved notable success overseas, with several games surpassing 10 million downloads on Google Play, despite Google's inaccessibility in China. This highlights NetEase's ability to appeal to international audiences and expand its global footprint. We expect **overseas games revenue to grow by a CAGR of c.24% for 2022-2025F**.

Good and Generous Management: NetEase demonstrates strong shareholder commitment through increasing dividends and strategic share repurchases. With a **dividend yield of 2.81% in 2023 and substantial repurchases using 27% of net income in the last 2 years**, the company reinforces its financial strength and dedication to returning value to its investors.

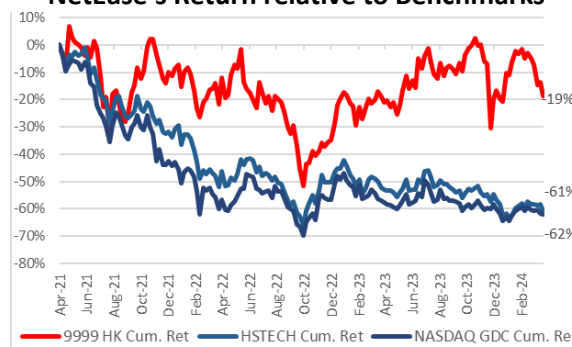
BUY Rating for NetEase (9999 HK)

24-month Target Price **HK\$ 203 +42.2%**

Exposure in Greater China Region* **~90%**

Latest price	HK\$ 142.8
Market capitalization	HK\$ 460.82B
52-weeks range	116.1 - 185.7
5-year revenue CAGR	15.1%
ROE	24.78%
Net cash	HK\$ 120.92B
Beta (3Y weekly)	0.945
	(c.w. HS Tech)

NetEase's Return relative to Benchmarks



Solid Financial Foundations: NetEase boasts a **robust cash position and a rising free cash flow**, ensuring ample funds for research and development to swiftly adapt to emerging trends in the gaming industry.

Counter-Cyclical: The gaming sector's counter-cyclical nature, marked by steady or increasing revenues **even during economic downturns**, positions it as a robust investment choice in turbulent times.

Description of the investment philosophy

Our investment philosophy is centered around several key principles:

- We interpret value investment as seeking robust growth at a fair price.
- We prioritize companies with sustainable and predictable growth, avoiding reliance on the success of isolated projects.
- We seek opportunities where the company's intrinsic value surpasses its current market price.

Specific characteristics we value in a company include:

- Operating in a growing and promising industry, as these sectors provide greater potential for profitable discoveries.
- Considering the scalability of the company's business model, this can be an indicator of its potential for future growth.
- Having a consistent record of positive free cash flow, which indicates a company's ability to survive independently and generate shareholder value.
- Practicing good financial habits that prioritize shareholder value over management compensation.
- Maintaining a stable management hierarchy.
- Possessing a strong corporate culture and philosophy that prioritizes long-term sustainability over short-term profit.
- Having a simple, clear, and straightforward shareholding structure, which is easy to understand and helps to avoid agency conflicts.
- Preferring businesses that have a strong competitive advantage or unique selling proposition in their industry.
- Looking for companies that are responsive and adaptive to changes in market trends and consumer behavior.

We also consciously avoid companies with the following characteristics:

- High exposure to unquantifiable uncertainties, such as geopolitical risk, etc.
- Avoiding companies over-reliant on a single customer or supplier, as this can pose significant risks.
- Engaging in "empire building", or reckless expansion that could harm shareholder value.
- Neglecting the interests of minority shareholders, especially if major insider shareholders are reaping benefits at outsiders' expense.
- Lack of vision or a tendency to prioritize short-term interests over long-term objectives.
- Complex cross-holding structures between multiple legal entities, which can make analysis difficult and obscure management accountability.
- Steering clear from companies with high levels of debt, as this can restrict their flexibility and growth potential.

After meticulous analysis and careful consideration of our investment philosophy, we have identified NetEase ([9999.HK](#)) as our stock of choice. We believe it embodies the attributes we value and successfully fulfills the criteria we've established, making it a promising candidate for value investment.

Industry Overview

As NetEase's principal business and a majority share of its revenue is derived from game development, our attention is primarily on this segment. The gaming industry is peculiar in that substantial financial investment does not guarantee triumph.

Global Market: Growing Steadily

Since the advent of personal computing devices, video games have been one of the fastest growing and the most popular forms of entertainment. The player base of the gaming industry has increased from 764M in 2017 to 1.22B in 2023 and is expected to increase to 1.47B in 2027, almost doubled in 10 years. Not only does the number of gamers increase, but also the amount spent on games and related activities also increase steadily. The average revenue per user is estimated to have a CAGR of 5.2% from 2017A to 2027E. With further digitalization and internet infiltration in the global south, there is still much room for the global gaming market to continue growth.

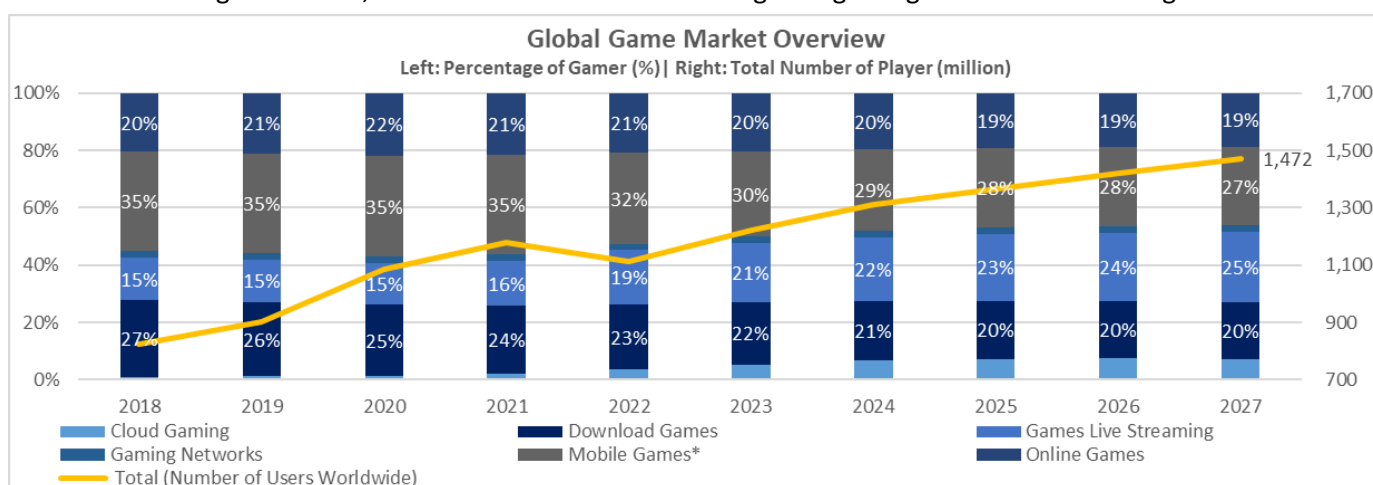


Figure 1 Data from Statista

China Market: Giant Losing Steam

The Chinese market is the biggest market and greatest revenue source for video games. With an expected game revenue at \$94M USD, China's domestic market contributes to almost one-third of the revenue generated on video games globally (\$283.3B USD). Chinese market is undoubtedly the most important market for games to generate big profit. However, we expected a declined growth rate in mobile games revenue in the Chinese market, it is forecasted that the growth rate will drop from ~15%, to single-digit from 2025-on.

The "Bigs" Stay Big

Game development bears similarities to movie production. Although recording a video is simple, producing successful commercial films can be expensive. It requires more than just passion and skill; it also demands capital and a keen understanding of the audience. According to Statista, the average development cost of a mobile game is approximately US\$5 million, excluding ongoing expenses such as advertising and server hosting.

Small-sized studios, due to their limited resources, are particularly prone to misallocating resources and misreading the market. As a result, these studios often become acquired by larger entities to secure ongoing financing. Large game development companies then begin to resemble movie producers or multi-strategy hedge funds, overseeing multiple teams and studios. The more teams they manage, the more diversified they become, leading to significant economies of scale on shared infrastructure. This efficient setup allows them to navigate the production cycle more

effectively and tolerate a higher level of risk.

Large game development companies, like NetEase, benefit from this trend. It also aids NetEase’s overseas expansion. Between 2018 and 2023, NetEase's gaming revenue surged by 87.8%. Its market share among the top six selected industry players increased from 13.82% to 15.77%. This growth of 2 ppt in market share over five years underscores NetEase's ability to leverage this industry trend.

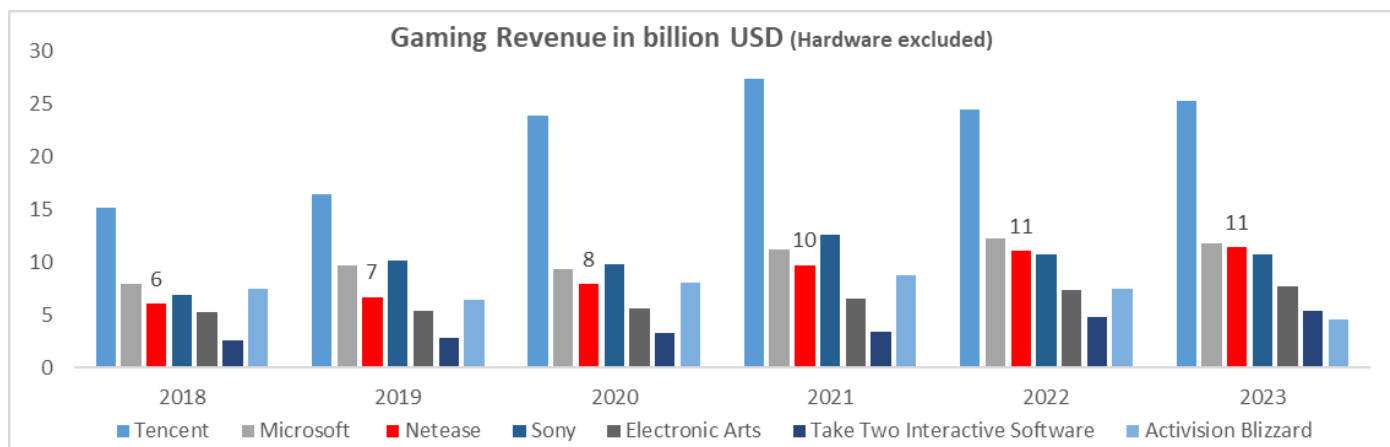


Figure 2 Data from Bloomberg

Polarized Gamers

The gaming industry is becoming increasingly polarized, with developers typically favoring either high-investment Triple-A titles or innovative casual games featuring creative rules and mechanisms. Triple-A games, such as 'Cyberpunk 2077' and 'Grand Theft Auto', require substantial resources, including money, time, and development effort. These games often appeal to gaming enthusiasts willing to invest in advanced hardware and who appreciate sophisticated graphics and complex mechanisms. On the other hand, casual games are more accessible and require less initial investment and development time. They are often played during commutes or used as social tools when meeting new friends.

While both strategies can yield high returns, neither guarantees success, making the decision between them crucial. There are signs of growing "Triple-A fatigue" among gamers. For example, games like 'Eggy Party' by NetEase and 'Animal Crossing' by Nintendo have had worldwide success. However, a mixed production portfolio can be beneficial. Converting Triple-A titles to mobile games can be profitable, such as 'PUBG Mobile', 'Call of Duty Mobile', etc. A balanced portfolio of Triple-A and casual games can enhance a company's long-term profitability and reduce financial risk.

Business Description

Company history and timeline

NetEase was established in 1997 by Ding Lei (丁磊). From 1997 to 2000, NetEase primarily focused on developing a web portal, which guided early internet users to various online services. NetEase has been listed on NASDAQ since 2000. In 2001, NetEase established the Online Gaming Business Group and launched its first MMORPG PC online

game¹, 'Westward Journey Online' (大话西游). In 2004, NetEase launched another PC online game, 'Fantasy Westward Journey' (梦幻西游). This game continues to generate revenue due to its unique in-game economic system and serves as a major IP for the company. Taking only games revenue (hardware excluded) into account, NetEase is the 5th largest games company in the world, following Tencent, Microsoft, Nintendo, Sony (See Appendix Item 1)

Business lines, management, and shareholding structure

NetEase's businesses are grouped into four segments: gaming, Cloud Music, Youdao, and other innovative businesses. Below are the revenue breakdowns of the 4 segments. The importance of games in driving NetEase's revenue and profits is self-evident.

	FY 2020	FY 2021	FY 2022	FY 2023
REVENUE (M CNY)				
GAMES & RELATED VALUE-ADDED SERVICES	58,720	67,819	74,566	81,565
CLOUD MUSIC	4,896	6,998	8,992	7,867
YOUDAO	3,168	5,354	5,013	5,389
INNOVATIVE BUSINESSES & OTHERS	6,884	7,435	7,924	8,647
GROSS PROFIT (M CNY)				
GAMES & RELATED VALUE-ADDED SERVICES	35,989	41,812	46,782	55,627
CLOUD MUSIC	(595)	143	1,293	2,103
YOUDAO	1,454	2,906	2,582	2,767
INNOVATIVE BUSINESSES & OTHERS	2,135	2,110	2,109	2,567

The management team in NetEase is very experienced and sophisticated. Many of them stay in the company for more than 10 years. The following are the profiles of some of the top managers in NetEase.

Name	Position	Time at NetEase
丁磊	CEO	1997 - Present
楊昭烜	CFO	2017 - Present
胡志鵬	VP, 雷火事業群 PIC	2007 - Present
周楓	SVP, Youdao CEO	2004 - Present

Regarding the shareholding structure, NetEase's corporate structure is simple and straightforward, ensuring clear responsibility divisions. The shareholding structure reflects four business segments. (See Appendix Item 2)

Gaming and Related Value-added Services

NetEase's gaming and related value-added services segment has been the major driver of the company's growth and biggest contributor of revenue and profits. NetEase's gaming segment has proved itself to succeed over time and maintain its leading status in the industry. NetEase's gaming revenue is mainly from in-app purchase of virtual items, including avatars, skills, privileges and other in-game consumables, features, and functionalities. (NetEase Annual Report 2022 Page 72)

¹ MMORPG stands for Massively Multiplayer Online Video Games. Examples include World of Warcraft and Final Fantasy.

Mobile Games

Early Mover: NetEase swiftly recognized the potential of mobile game development and was one of the pioneers in this field. In 2014, alongside the swift rise of smartphone usage in China, they launched mobile versions of their popular PC MMORPG franchise "Westward Journey". This decision was a significant success for NetEase, reinforcing their status as the second-largest game developer in China after Tencent.

Always Exploring: NetEase has been proactive in diversifying its gaming styles and building new franchises since entering the mobile gaming market. For example, in 2017, NetEase launched 'Knives Out', a Battle Royale style game following the success of PUBG. In 2018, they introduced 'Identity V', a horror-themed game that gained rapid popularity in China and Japan. In 2022, they introduced 'Eggy Party', a casual game that permits users to create their own games within it, which instantly went viral in China. The success of 'Egg Party' was so significant that it prompted Tencent to quickly develop a similar game 'Dream Stars (元梦之星)' in December 2023.

Success Abroad: NetEase's in-house productions have not only proven successful domestically in mainland China, but they have also garnered significant popularity among overseas players. Several games have exceeded 10 million downloads on Google Play, a notable achievement considering Google is inaccessible in China.

International Partners: To expand into the overseas market, NetEase has partnered with renowned IP owners to co-develop mobile games. This includes collaborating with Warner Brothers on 'Harry Potter: Magic Awakened' and with Blizzard Entertainment on 'Diablo Immortal' (which was acquired by Microsoft). (See Appendix item 3)

PC and Console Games

Franchise Expansion: NetEase has always prioritized quality in its PC and console game development. They launched their first PC-based MMORPG, 'Westward Journey Online', in 2002, and have since refined the title and expanded its associated content.

Quality Centric: NetEase emphasizes quality over quantity in PC and console games, partly due to higher standards from gamers, especially regarding graphics and artistry. Additionally, PC and console games are an effective way to build an IP. Many of NetEase's successful PC and console games have been adapted to mobile versions. A recent example is 'Naraka: Bladepoint', launched in 2021. Its mobile version is currently undergoing beta testing in China. (See Appendix Item 4)

Licensed Games

In addition to in-house developed mobile and PC games, NetEase also offers games licensed from other international game developers, including Microsoft (previously Activision Blizzard). Examples include World of Warcraft, Diablo, Overwatch, etc. Revenues from licensed games accounted for 9.1%, 9.5% and 9.5% of our total revenues in 2020, 2021 and 2022, respectively.

Cloud Music, Youdao and other innovative businesses

Cloud Music

Business Overview: Cloud Music (9899 HK) operates the online music platform "NetEase Cloud Music", providing community-centric online music services in China. The company has 2 major sources of revenue: (i) Online music services, derived from the sale of membership subscriptions in various content and service packages, and (ii) Social entertainment services and other sources, primarily through the sale of virtual items.

Market Positioning: NetEase Cloud Music is the 3rd largest online music streaming company by monthly active users

FY 2023 (in m CNY)	Cloud Music	TME
Revenue	7,867	27,752
Gross Profit	2,102	9,795
Net Profit	734	4,920

in China, following Tencent Music Entertainment (TME US) and Migu by China Mobile (941 HK) What sets Cloud Music apart from other music streaming platforms is its community-centric strategy, its support for independent music producers, and its focus on less popular singers and songs.

Financial Performance: Net Profit and Operating Cashflow turn positive in FY2022 and FY2023. This is primarily due to the conclusion of the "License war" with Tencent Music Group, lowering the cost to acquire music copyrights. Cloud Music was listed in HKEX in Dec 2021. Until Apr 19, 2024, NetEase holds around 60% shares of Cloud Music.

Youdao

Overview: Youdao (DAO US) develops e-learning software and hardware, and online adult learning platforms. Major products of Youdao includes Youdao dictionary (有道词典), Youdao Cloud Notes (有道云笔记), Youdao Cloud Classroom (有道云课堂)

Market Positioning: The comprehensive product lines of Youdao makes it an essential provider of studying tool for students in China. However, with Chinese government tightened policy on relieving students' learning pressure, private education service providers will be increasingly difficult to monetize.

Financial Performance: Youdao's revenue has been growing, but net income remains negative. The share price peaked at 46.01 in August 2020, but fell due to China's ban on K-12 tutoring services. As of April 13, 2024, the share price closed at 3.99 with a market capitalization of 495.62M. Youdao was listed on the NYSE in Oct 2019. NetEase holds 55% of Youdao's shares.

Other innovative businesses

NetEase operates several other businesses, including e-commerce (网易严选), advertising, and legacy value-added services like email inboxes. In 2019, NetEase sold its subsidiary Koala (网易考拉) to Alibaba for US\$2B. This category fosters the development of new ideas and businesses.

What NetEase has done right

Mobile Centric

NetEase's early shift to mobile game development capitalized on the rise of affordable smartphones, which expanded the global gamer base. Smartphones made mobile gaming popular and social among the younger generation. NetEase's early involvement in mobile gaming has given it significant R&D experience. The company now operates multiple game development studios, a centralized support office, and its own game engine, NeoX. With improved game quality and global collaborations on popular IPs like Harry Potter, NetEase's development capabilities are globally acknowledged.

Player Centric

NetEase, though not a global leader, stands out with its ability to adapt and focus on niche markets. Unlike Tencent, which creates complex games for the masses, NetEase excels in diverse game themes and styles. Its corporate culture allows for quick adaptation to market changes, as seen in the success of 'Eggy Party'. Recognizing Chinese players' fatigue with competitive games, they shifted to casual party games with user-generated content, turning gamers into developers. This approach, especially popular among often overlooked female players in post-Covid China, underscores NetEase's commitment to customer-centric experiences, driving their past and future growth.

Prioritize Long-Term Success Over Short-Term Convenience

NetEase transitioned from importing overseas games for the Chinese market to developing its own online games. This transition required significant financial investment and a long-term commitment. NetEase heavily invested in underlying infrastructure upon entering the game development business. It is one of only two Chinese game

developers, alongside Tencent, that have invested in a self-developed game engine rather than relying on third-party providers like Unity. NetEase has owned NeoX and Messiah since 2006, which illustrates their corporate culture of tackling challenges head-on for long-term results, despite potential short-term difficulties.

Valuation and financial analysis

Review of previous financial performance

Fabulous Track Record: NetEase has shown steady growth over 10 years with annual increases in revenue and gross profit, despite challenging macroeconomics. While growth has slowed recently, operating efficiency has improved. The growth rates of gross profit, operating income, net income, and cash flow have all significantly surpassed revenue growth, showcasing NetEase's effective use of economies of scale.

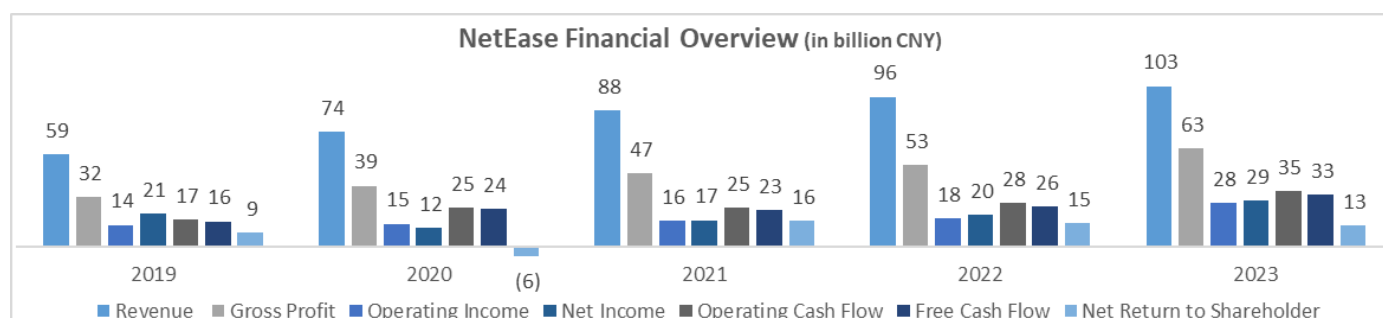


Figure 3 NetEase Annual Reports

Shareholders Reward: NetEase regularly rewards its shareholders. Since 2019, the firm has paid increasing dividends. In 2023, with a total annual dividend of 4.01 HKD and a current share price of 142.9 HKD, the dividend yield was 2.81%. NetEase also repurchases its shares, using 16% of its total net income over the past five years, and 27% in the last two. Notably, NetEase repurchased all shares issued for its HKEX secondary listing within about two years, demonstrating its strong financial position and commitment to shareholders.

	Amount (m CNY)			Percentage of Net Income		
	Past 10y	Past 5y	Past 2y	Past 10y	Past 5y	Past 2y
Dividend	42,062	31,367	14,738	30%	31%	30%
Net Buyback	26,962	16,055	13,562	19%	16%	27%
Total	69,024	47,422	28,300	49%	47%	57%

Robust Balance Sheet: NetEase boasts a robust balance sheet, with a net cash position since its NYSE listing. As of 2023, 68.16% of its total assets are cash. Net cash stands at 107B CNY, accounting for a quarter of its 420B CNY market cap. The company avoids long-term debt, without outstanding bonds and a minor 428m CNY bank loan. Long-term debt represents less than 1% of total liabilities. As a significant annual free cash flow generator, NetEase could increase its financial leverage.

Defy Market Volatility: Despite market volatility and regulatory changes, NetEase has shown strong share performance. Since inception, HSTECH index lost 51.48% and dropped over 70% from its peak, while NetEase gained +2.95%, pre-dividends. This speaks to the company's robust business, financial performance, and steady management style, enhancing investor confidence.

Methodology

Sum of the Part: Consider NetEase as a combination of three components: Games and others, Cloud Music, and YouDao. This division is primarily because both Cloud Music and YouDao are publicly traded companies, making their market values observable.

Games and others: Revenue from games and other sources is projected to increase by a mid-single to low double-digit percentage, despite slowing growth in the China market. However, thanks to economies of scale, increased cost control awareness, and business streamlining, both gross margin and operating margin are expected to improve.

Cloud Music and Youdao: As these are publicly traded companies, we will determine their value as follows: NetEase's stake in the company multiplied by the company's market value, and then multiplied by 70% for the holding discount.

Valuation

Giving NetEase gaming segment of FY2024 18X PE, which is largely in lines with its peer, plus the value of Cloud Music and Youdao, we give NetEase the target price of 203 HKD

	VALUATION (USDMN)	STAKE	ATTRIBUTABLE VALUATION (USDMN)	VALUATION METHODOLOGY
ONLINE GAMES	67,904	100%	67,904	18 * FY24F P/E ²
CLOUD MUSIC	2,393	61%	1,460	Market Value ³
NETEASE YUDDAO	443	59%	261	Market Value
GROSS EV			70,299	
HOLDING DISCOUNT ⁴			30%	
NET EV			69,782	
NET CASH			15,755	
MARKET CAP			85,537	
TOTAL OUTSTANDING SHARES (M)			3,301	
TP (HKD)			203	

Growth Catalyst

Gaming as a New Social Norm: In the post-pandemic landscape, the social element of gaming has emerged as a pivotal trend, akin to how platforms like Tinder have transformed social interactions. NetEase has adeptly capitalized on this shift by developing games that foster cooperation and quick social engagement, such as "Eggy Party" and "Identity V." These games are designed for rapid, cooperative play, with each session lasting less than 10 minutes, with a low learning curve—making them ideal for gamers seeking brief, yet fulfilling, social interactions. This approach particularly appeals to the new young generation of gamers, who may find the longer game durations of traditional titles like League of Legends (each game takes around 1 hour) less compatible with their busier lifestyles after graduation.

Online Streaming, Game Merchs, E-sports Competitions: NetEase is broadening its business model by venturing into e-sports and online streaming, creating new revenue streams beyond traditional game sales. The company has initiated e-sports competitions for games like "Identity V," which not only serve as effective marketing tools but also generate additional revenue from competition tickets and game-related merchandise. This diversification into e-sports offers NetEase an alternative and sustainable income source, which is increasingly vital in the dynamic gaming industry. Moreover, with developments such as CommsEase—a suite of streaming tools for content creators—and "CC live streaming" for audiences, NetEase is enhancing its engagement with the gaming community and capitalizing

² Largely in line with latest global peers

³ In line with the latest market cap for Cloud Music (9899 HK)

⁴ In line with the latest market cap for Youdao (DAO US)

on the booming demand for game-related content, further strengthening its position as a leader in the global gaming market. These strategic expansions are indicative of NetEase's innovative approach to growth, making it an attractive option for investors looking for companies with forward-thinking strategies in the gaming sector.

Investment Risk

Navigating Chinese Government Rules on Gaming: In the Chinese market, online games must undergo content review by the National Press (NPPA) and receive a publication number before being launched. Thus, whether new games could be launched on Chinese market or not remains uncertainties, even for experienced game developing companies. Starting from 2011, law restrictions have been made to reduce the gaming time of teenagers and mandate the use of real-name registration for players, lowering the active player base. Laws have also been imposed to limit the monetization models of games, those relying heavily on player payments for randomized items (gacha mechanics) and pay-to-win scenarios in PvP setups, are under intense scrutiny.

Competing for Attention: As gaming is a form of entertainment, game companies are not only competing against each other but also against a broad array of alternative entertainment options. Platforms like TikTok have emerged as significant competitors, especially in capturing the attention of demographics such as women who may prefer shorter, more engaging content formats. The rise of such platforms suggests that the more time users spend on these alternatives, the less time they have for gaming. This shift in consumer behavior could impact NetEase's user engagement and retention, as well as the potential for revenue generation from in-game purchases.

Emerging Technologies and Shifting Player Preferences: As advancements in VR/MR technologies, exemplified by products like Vision Pro, gain momentum, the gaming industry is seeing a trend shift towards immersive, reality-integrating experiences. Currently, NetEase has limited exposure to VR/MR gaming, which could pose a risk if these platforms become the dominant mode of gameplay. Additionally, the rise of Large Language Models (LLMs) is transforming player expectations in open-world games, making NPC interactions more dynamic and realistic. NetEase's ability to adapt its game development to incorporate LLMs effectively into MMORPGs or other genres remains uncertain. If these trends gain popularity, whether NetEase can adapt them could impact its ability to attract and retain players.

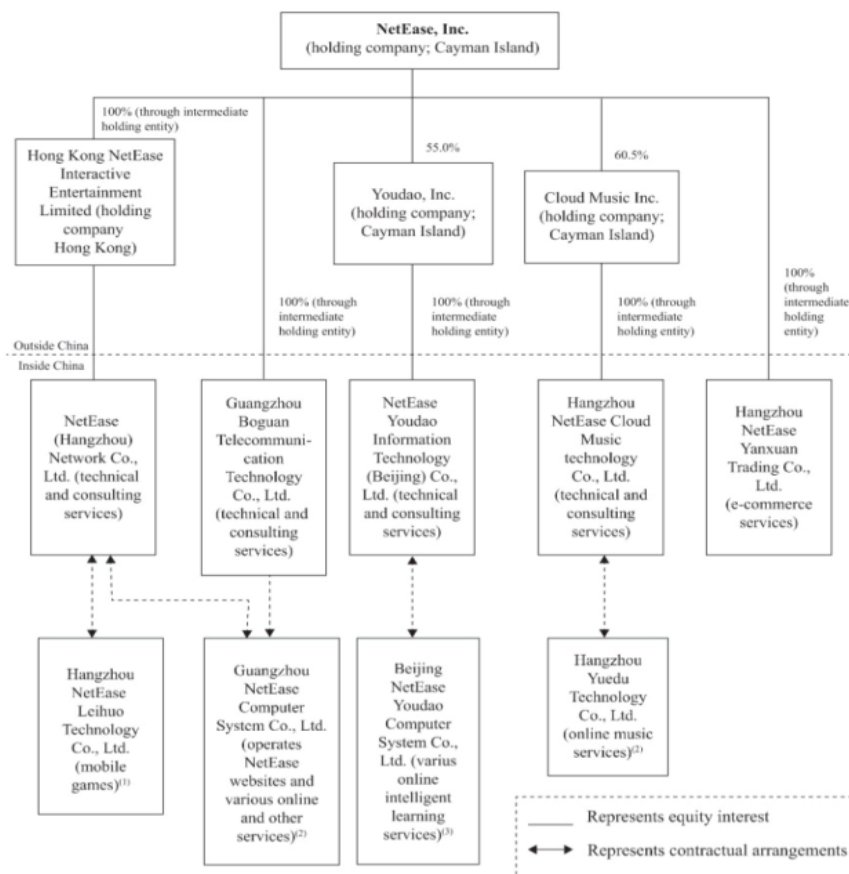
Sanction Risks for NetEase: Since NetEase is primarily listed in the US and its shares are held by many western investors, investors may be forced to liquidate their position due to regulation, pushing down the share price. While most U.S. sanctions have historically targeted sectors like telecommunications, raw materials, and social media, the broader category of China Concept Stocks, which includes NetEase, could be impacted by regulatory actions against other Chinese firms. An example of such sanctions includes the U.S. government's restrictions on companies like Huawei, which were barred from accessing U.S. technology and markets due to national security concerns. Although NetEase operates in the gaming industry and has not been directly targeted, the possibility of sanctions extending to more sectors or being applied more broadly as part of geopolitical tensions could affect the company's operations, market access, and stock performance.

Appendix

Item 1: Company milestone

Founding of NetEase	1997
Launch of free web-based e-mail services, and business model shifted from software development to internet technology with the launch of our NetEase website (“www.163.com”)	1998
Launches of advertisement services, online platforms, online shopping malls, and other internet services in China	1999
Listing on Nasdaq on June 30	2000
Introduction of fee-based premium services and online entertainment services, including online games, wireless value-added services and other subscription-type services	2001
Launch of our first PC-client MMORPG game, Westward Journey Online, our widely popular in-house developed game series	2001
Launch of our Fantasy Westward Journey series, our second widely popular original game series	2004
Founding of Youdao, an intelligent learning company that now offers learning content, applications and solutions, as well as online marketing services	2006
Launch of NetEase Cloud Music, our music streaming platform	2013
Launch of NetEase first mobile game, the mobile version of Fantasy Westward Journey II	2013
Launch of Yanxuan, our e-commerce business	2016
Listing of Youdao on the New York Stock Exchange on October 26	2019
Listing on Hong Kong Stock Exchange on June 11	2020
Listing of Cloud Music on the Hong Kong Stock Exchange on December 2	2021

Item 2: NetEase’s Shareholding Structure



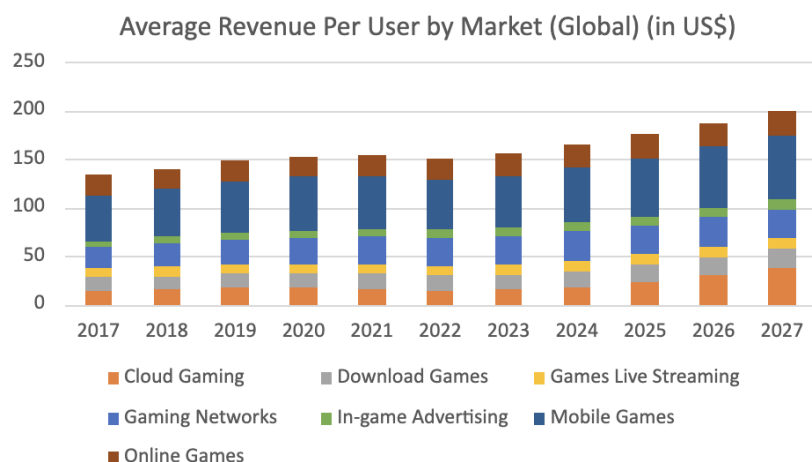
Item 3: List of in-house mobile games

Game	Genre	Date of Initial Launch
Mobile Version of Fantasy Westward Journey II	Turn-based MMORPG	July 2013
Fantasy Westward Journey mobile game	Turn-based MMORPG	March 2015
Westward Journey Online mobile game	Turn-based MMORPG	September 2015
Invincible	SLG	October 2015
The mobile version of Ghost	Real-time MMORPG	May 2016
Onmyoji	CCG & RPG	September 2016
Knives Out	Battle Arena	November 2017
Rules of Survival	Battle Arena	November 2017
All About Jianghu	Real-time MMORPG	January 2018
Identity V	Battle Arena	April 2018
LifeAfter	Cooperative Survival RPG	November 2018
Fantasy Westward Journey 3D	3D MMORPG	December 2019
Onmyoji: The Card Game	CCG	December 2019
Fantasy Westward Journey H5	MMORPG	June 2020
Revelation mobile game	MMORPG	January 2021
Harry Potter: Magic Awakened*	MMORPG	September 2021
Eggy Party	Casual Party Mobile Game	May 2022
Diablo® Immortal™*	MMO Action-RPG	June 2022

Item 4: List of inhouse pc and console games

Game	Genre	Date of Initial Launch
New Westward Journey Online II (a comprehensive upgrade of Westward Journey Online II)	2D MMORPG, classical Chinese setting	August 2002, September 2013
Fantasy Westward Journey Online (previously known as Fantasy Westward Journey II)	2D MMORPG, classical Chinese setting	January 2004, July 2013
Tianxia III	3D MMORPG, classical Chinese setting	October 2011
New Ghost (a new version of Ghost II)	2.5D MMORPG, classical Chinese setting	April 2012, September 2015
Justice	3D MMORPG, classical Chinese setting	June 2018
Naraka: Bladepoint	Action Battle Royale	July 2021

Item 5: List of inhouse pc and console games



Item 6: Forecasted Income Statement

YEAR-END 31 DEC (M CNY)	FY22	FY23	FY24F	FY25F	FY26F
REVENUE	96,496	103,468	115,603	125,090	140,637
COST OF GOODS SOLD	(42,971)	(39,581)	(43,971)	(47,729)	(53,181)
GROSS PROFIT	53,525	63,887	71,632	77,361	87,455
SG&A	(30,722)	(32,935)	(35,953)	(38,653)	(43,457)
EMPLOYEE SHARE EXPENSE	(3,174)	(3,243)	(3,623)	(3,920)	(4,408)
OPERATING PROFIT	19,629	27,709	32,057	34,788	39,591
EBITDA	22,487	30,764	35,470	38,482	43,744
DEPRECIATION AMORTISATION	(2,858)	(3,055)	(3,414)	(3,694)	(4,153)
EBIT	19,629	27,709	32,057	34,788	39,591
NET INTEREST EXPENSE	2,150	4,120	3,000	3,000	3,000
ASSOCIATES & JCES	54	1,307	-	-	-
OTHER INCOME	2,418	921	921	921	921
EARNING BEFORE TAX	24,250	34,057	35,977	38,708	43,511
INCOME TAX	(5,032)	(4,700)	(7,555)	(8,129)	(9,137)
NET PROFIT AFTER TAX	19,218	29,357	28,422	30,580	34,374
MINORITIES	494	59	59	59	59
OTHER ITEMS	3,096	3,192	3,572	3,869	4,357
PREFERRED DIVIDEND	-	-	-	-	-
NORMALISED NPAT	22,808	32,608	32,053	34,508	38,790
EXTRAORDINAR Y ITEMS	(3,096)	(3,192)	(3,572)	(3,869)	(4,357)
REPORTED NPAT	19,713	29,417	28,481	30,639	34,433
DIVIDENDS	(6,253)	(11,747)	(11,393)	(12,256)	(13,773)
TRANSFER TO RESERVES	13,460	17,669	17,089	18,383	20,660

Item 7: Forecasted Balance Sheet

YEAR-END 31 DEC (M CNY)	FY22	FY23	FY24F	FY25F	FY26F
CASH & EQUIVALENTS	27,588	24,206	35,808	64,327	74,378
MARKETABLE SECURITIES	84,948	100,856	107,856	112,856	117,856
ACCOUNTS RECEIVABLE	5,003	6,422	8,147	2,820	9,510
INVENTORIES	-	-	-	-	-
OTHER CURRENT ASSETS	14,065	11,208	15,033	12,947	20,996
TOTAL CURRENT ASSETS	131,603	142,693	166,844	192,950	222,740
LT INVESTMENTS	-	-	-	-	-
FIXED ASSETS	6,342	8,075	7,233	6,322	5,297
GOODWILL	-	-	-	-	-
OTHER INTANGIBLE ASSETS	-	-	-	-	-
OTHER LT ASSETS	34,815	35,157	35,157	35,157	35,157
TOTAL ASSETS	172,761	185,925	209,234	234,429	263,194
SHORT-TERM DEBT	-	-	-	-	-
ACCOUNTS PAYABLE	1,507	881	1,825	2,180	2,283
OTHER CURRENT LIABILITIES	55,322	52,961	55,591	58,483	61,664
TOTAL CURRENT LIABILITIES	56,829	53,842	57,415	60,663	63,947
LONG-TERM DEBT	-	-	-	-	-
CONVERTIBLE DEBT	-	-	-	-	-
OTHER LT LIABILITIES	7,059	3,998	3,998	3,998	3,998
TOTAL LIABILITIES	63,888	57,841	61,414	64,661	67,946
MINORITY INTEREST	4,142	-	(59)	(119)	(178)
PREFERRED STOCK	-	-	-	-	-
COMMON STOCK	-	-	-	-	-
RETAINED EARNINGS	3	-	-	-	-
PROPOSED DIVIDENDS	91,075	-	19,795	41,802	67,342
OTHER EQUITY AND RESERVES	13,654	128,084	128,084	128,084	128,084
TOTAL SHAREHOLDERS' EQUITY	104,731	128,084	147,879	169,886	195,426
TOTAL EQUITY & LIABILITIES	172,761	285,925	209,234	234,429	263,194

Item 8: Forecasted Cash Flow Statement

YEAR-END 31 DEC (M CNY)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA	22,487	30,764	35,470	38,482	43,744
CHANGE IN WORKING CAPITAL	12,251	(1,549)	(1,977)	11,560	(11,455)
OTHER OPERATING CASHFLOW	(7,028)	6,116	7,751	(6,916)	(6,095)
CF FROM OPERATIONS	27,709	35,331	25,743	43,126	26,194
CAPITAL EXPENDITURE	(2,643)	(4,276)	(2,571)	(2,783)	(3,128)
FREE CASHFLOW	25,066	31,055	23,171	40,344	23,065
REDUCTION IN INVESTMENTS	(14,193)	(15,908)	(7,000)	(5,000)	(5,000)
NET ACQUISITIONS	274	(342)	-	-	-
DEC IN OTHER LT ASSETS	274	(342)	-	-	-
INC IN OTHER LT LIABILITIES	3,340	(3,060)	-	-	-
ADJUSTMENTS	5,852	6,543	7,000	5,000	5,000
CF AFTER INVESTING ACTS	20,340	18,288	3,171	60,344	3,065
CASH DIVIDENDS	(6,724)	(8,014)	(11,570)	(11,824)	(13,014)
EQUITY ISSUE	-	-	-	-	-
DEBT ISSUE	4,845	(8,305)	-	-	-
CONVERTIBLE DEBT ISSUE	-	-	-	-	-
OTHERS	(8,248)	(5,351)	-	-	-
CF FROM FINANCIAL ACTS	(10,126)	(21,670)	(11,570)	(11,824)	(13,014)
NET CASHFLOW	10,213	(3,382)	11,601	28,519	10,051
BEGINNING CASH	17,375	27,588	24,206	35,808	64,327
ENDING CASH	27,588	24,206	35,808	64,327	74,378