OUR KEY MILESTONES

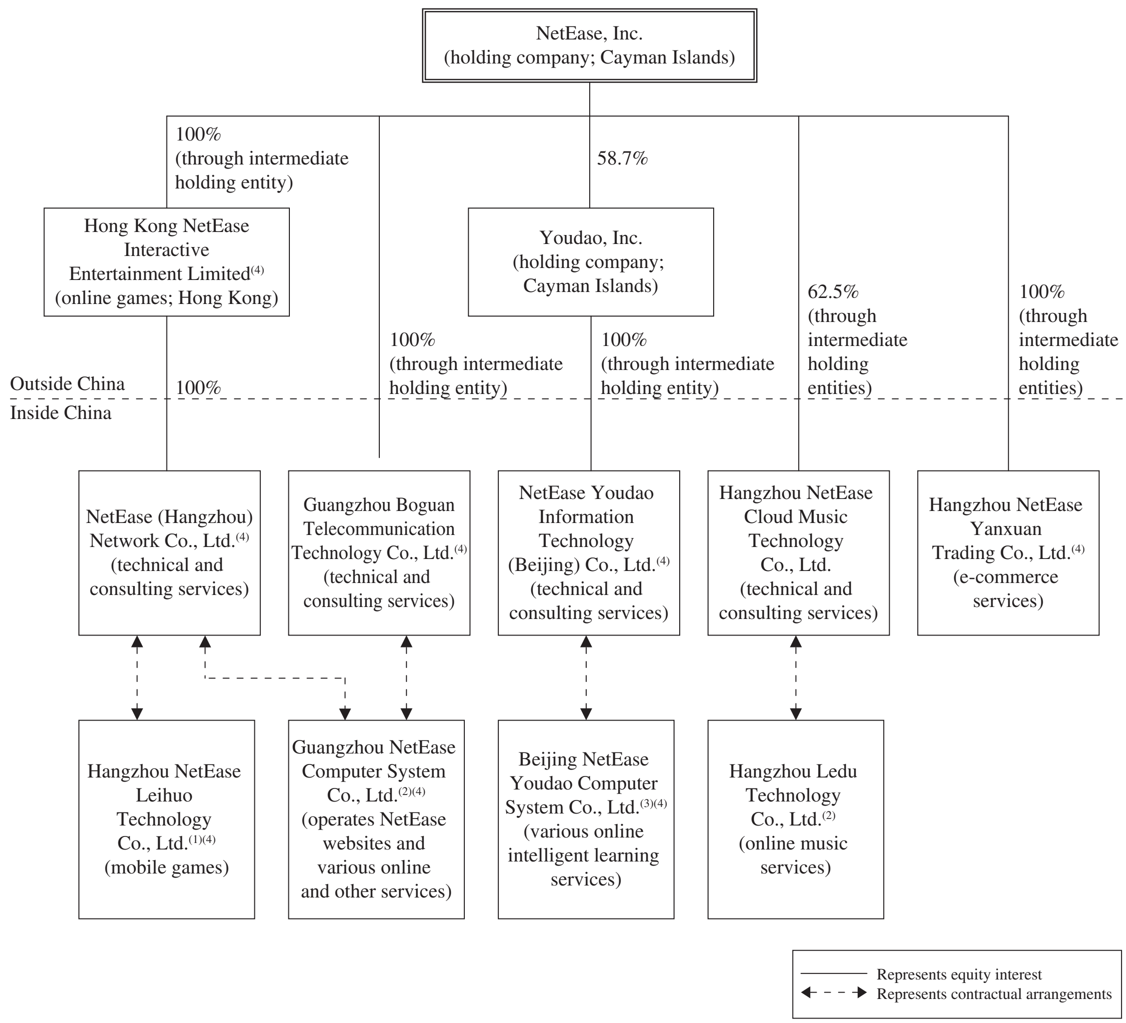
Our business was founded in June 1997 and our Company was incorporated on July 6, 1999 under the Cayman Companies Law. Our key business milestones are summarized below:

• Founding of our business	1997
• Launch of free web-based e-mail services 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	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 online learning services and products, as well as online marketing services	2006
• Launch of NetEase Cloud Music, our music streaming platform	2013
• Launch of our first mobile game, the mobile version of *Fantasy Westward Journey II*	2013
• Launch of our e-commerce platform, Kaola	2015
• Launch of Yanxuan, our private label e-commerce business	2016
• Sale of Kaola to Alibaba	2019
• Listing of Youdao on the New York Stock Exchange	2019

CORPORATE STRUCTURE

Our corporate structure

For illustrative purposes, we summarize our corporate group structure in the diagram below:



Notes:

(1) Hangzhou NetEase Leihuo Technology Co., Ltd. is owned by two of our employees.

(2) Each of Guangzhou NetEase Computer System Co., Ltd. and Hangzhou Ledu Technology Co., Ltd. is 99.0% owned by William Lei Ding, our founder, director and chief executive officer, and 1.0% by two of our employees, respectively. Our indirect, wholly owned subsidiary NetEase Information Technology (Beijing) Co., Ltd. is also a party to certain contractual arrangements with Guangzhou NetEase Computer System Co., Ltd..

(3) Beijing NetEase Youdao Computer System Co., Ltd. is 71.1% owned by William Lei Ding and 28.9% owned by the chief executive officer of Youdao.

(4) Our Significant Subsidiaries, see "— Significant Subsidiaries," of which Hangzhou NetEase Leihuo Technology Co., Ltd., Guangzhou NetEase Computer System Co., Ltd. and Beijing NetEase Youdao Computer System Co., Ltd. (collectively, the "**VIE Entities**") are variable interest entities.

(5) Starting in August 2008, Blizzard Entertainment, Inc., (and together with its affiliated entities, "**Blizzard**") agreed to license certain online games to Shanghai EaseNet Network Technology Co., Ltd. ("**Shanghai EaseNet**") for operation in the PRC. Shanghai EaseNet is a PRC company wholly-owned by William Lei Ding, our founder, director and chief executive officer, and has contractual arrangements with the joint venture established between, and owned equally by, Blizzard and us. The joint venture was established concurrently with the licensing of games from Blizzard in August 2008 and provides technical services to Shanghai EaseNet. See "Our Business — Our Services — Online game services — International partnership and investment" and "Financial Information — Capital expenditures" and "Related Party Transactions" for details of our cooperation with Blizzard. See also Note 1(b) to the Accountant's Report in Appendix IA for information on Shanghai EaseNet being treated as a consolidated entity under accounting principles.

Significant Subsidiaries

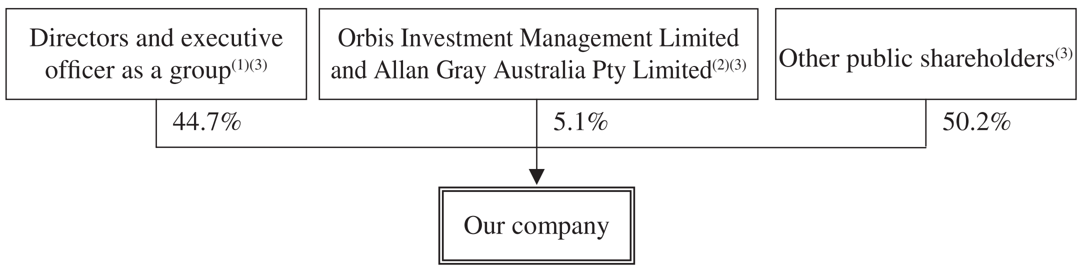
As of December 31, 2019, we conducted our business operations across approximately 129 subsidiaries, of which eight are our Significant Subsidiaries. The Significant Subsidiaries cover all of our reporting segments and collectively accounted for more than 80% of the Company's total net revenues for the financial year ended December 31, 2019. We summarize the principal business activities and date of establishment of each of our Significant Subsidiaries below:

Reporting segment	Name of company	Principal business activity	Date and jurisdiction of establishment
Online Game Services	Guangzhou NetEase	Operates online games, NetEase websites and various online and other services.	June 24, 1997, Guangzhou, China
	Boguan	Provides technical consulting and related services.	December 8, 2003, Guangzhou, China
	NetEase Hangzhou	Provides technical consulting and related services.	June 2, 2006, Hangzhou, China
	Hong Kong NetEase	Operates the online games business outside of China.	November 26, 2007, Hong Kong
	Hangzhou Leihuo	Primarily involved in the operation of the mobile games business.	April 15, 2009, Hangzhou, China
Youdao	Youdao Information	Provides technical consulting and related services.	March 21, 2006, Beijing, China
	Youdao Computer	Primarily involved in the operation of the Youdao business.	September 4, 2007, Beijing, China
Innovative Businesses and Others	Yanxuan	Primarily involved in the operation of the Yanxuan business.	April 13, 2016, Hangzhou, China

For more details on the related party transactions with the above entities, see “Related Party Transactions.”

Shareholding structure

The following diagram illustrates our shareholding structure as at the Latest Practicable Date:



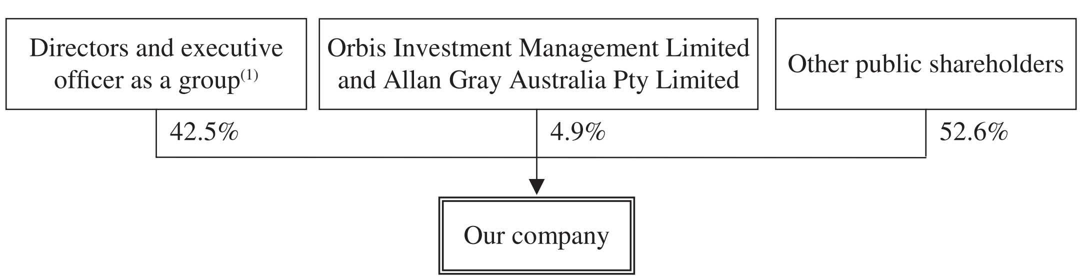
Notes:

(1) Represents an aggregate of 1,456,907,000 Shares, of which approximately 1,456,000,000 Shares are beneficially held by William Lei Ding, representing approximately 44.7% of our total issued share capital. See “Major Shareholders” for more information on the interest of William Lei Ding.

(2) Represents 167,410,775 Shares; based on the number of ADSs included in the Schedule 13F dated May 15, 2020, filed with the SEC by the reporting manager of Orbis Investment Management Limited and Allan Gray Australia Pty Limited, which is the most updated information published on the SEC as at Latest Practicable Date.

(3) The percentages are calculated based on the total issued share capital of our Company as at the Latest Practicable Date. “Other public shareholders” also includes 8,806,925 bulk Shares issued for the purpose of the RSU Plans and 53,284,125 Shares representing repurchased ADSs.

The following diagram illustrates our shareholding structure immediately upon the completion of the Global Offering (assuming all major shareholders’ shareholding remain unchanged as of the Latest Practicable Date, the Over-allotment Option is not exercised, and no additional Shares are issued under the RSU Plans):

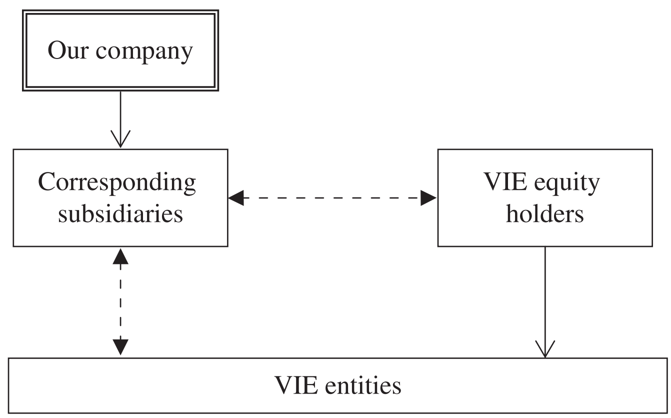


See the Notes to the previous shareholding structure.

Variable interest entity structure

We conduct our business in China through our subsidiaries, including the variable interest entities. Due to legal restrictions and prohibitions on foreign investment in Chinese companies providing, among other things, value-added telecommunications services, internet cultural services and internet publication services, we operate all of our business segments through contractual arrangements with the variable interest entities and their VIE equity holders.

The diagram below illustrates the general structure of the economic flow and control under the VIE structure created by the contractual arrangements:



Notes:

(1) "⟶" denotes the direction of legal and beneficial ownership.

(2) "- - ▶" denotes the contractual arrangements among the VIE entities, VIE equity holders, and our corresponding subsidiaries.

The contractual arrangements enable us to: (a) collectively exercise effective control over the variable interest entities and their subsidiaries; (b) receive substantially all of the economic benefits of our variable interest entities and their subsidiaries; and (c) have an exclusive option to purchase all or part of the equity interests in our variable interest entities when and to the extent permissible under PRC laws.

The variable interest entities hold ICP licenses and other regulated licenses in which foreign investment is restricted or prohibited, and operate our internet businesses and other businesses. Under the contractual arrangements, we provide our computer software, mobile applications, technologies and relevant services to the variable interest entities and they operate the NetEase online game services, online learning products and services, websites, as well as our other online businesses.

As a result of the contractual arrangements, we bear the risks of, and enjoy the rewards associated with, and therefore are the primary beneficiary of these variable interest entities.

Terms of the contractual arrangements

A typical set of contractual arrangement documents for our Group is described below. For the purpose of this section and unless the context specifies otherwise, "us," "we," and "our" refer to our company and/or the corresponding subsidiaries.

Transferring the economic benefits under the contractual arrangements

Cooperation agreement

Under a cooperation agreement, the variable interest entity receives technical and related services from us, through the corresponding subsidiaries, in exchange for substantially all of the variable interest entity's net profits. A typical cooperation agreement is entered into by us and the variable interest entity for an indefinite term unless terminated by the parties or to the extent required by law.

Ensuring effective control over the variable interest entities under the contractual arrangements

Exclusive purchase option agreement

The variable interest entity and its VIE equity holders enter into an exclusive purchase option agreement with us, pursuant to which: (a) the variable interest entity grants to us an option to purchase all or part of the assets held by that variable interest entity and its subsidiaries at a price equal to the net book value of the assets; and (b) the VIE equity holders grant to us, an exclusive option to purchase all or part of the equity interests in the variable interest entity at a subscription price equal to the original and any additional paid-in capital paid by the VIE equity holders. The variable interest entity and its VIE equity holders agree not to transfer, mortgage or permit any security interest to be created on any equity interest in or assets of the variable interest entity without our prior written consent. The agreement remains in effect until the equity interest or assets being the subject of the agreement is acquired by us or otherwise unilaterally terminated by us.

Loan agreement; equity pledge agreement

We grant interest-free loans to the VIE equity holders to be used by the VIE equity holders for the purpose of acquiring their equity interest in the variable interest entity. The term of each loan is ten years from the date of the loan agreement, and the loan agreement shall be automatically extended another ten years unless otherwise indicated by us at any time prior to its expiration. The loans are repayable at any time, at our discretion, by either the VIE equity holders transferring their interests in the variable interest entity to us, or by an alternative method determined by us.

The VIE equity holders enter into equity pledge agreements with us, pursuant to which the VIE equity holders pledge their interest in the variable interest entity as security for the outstanding amount advanced to the VIE equity holders under the loans and for the VIE equity holders performing their obligations under the contractual arrangements. Under the agreement, the VIE equity holder agrees not to transfer or pledge their equity interest in the variable interest entity without our prior written consent. The agreement remains binding until the VIE equity holder discharges all of their obligations under the loan agreement and the other agreements under the contractual arrangements.

Shareholder voting rights trust agreement; proxy agreement

Each VIE equity holder irrevocably entrusts a person designated by us to exercise all of his/her/their voting rights and other shareholder's rights to which the VIE equity holder is entitled as an ultimate shareholder of a variable interest entity in accordance with PRC Laws and the variable interest entity's articles of association. The agreement continues for as long as the VIE equity holder continues to have equity in a variable interest entity, or until unilaterally terminated by us.

Operating agreement

The variable interest entity and its VIE equity holders enter into an operating agreement with us, pursuant to which, the variable interest entity and its VIE equity holders jointly agree that: (a) the variable interest entity shall not enter into any transaction outside of its ordinary course of business that would materially affect its assets, liabilities, rights, or operations without our prior written consent; (b) they shall comply with any guidance relating to corporate policies provided to them by us, from time to time; and (c) the VIE equity holders agree that, upon instruction from us, they would appoint the board members, president, chief financial officer, and other senior executive officers, of the variable interest entity as nominated by us. The term of the agreement is 20 years from the date of execution and can be extended with our prior written consent.

The remaining VIE entities (including Beijing NetEase Media Co., Ltd.) have also entered into varying sets of contractual arrangements, each of which has the same effect of allowing us to receive the economic benefits from its operations, obtain effective control over the variable interest entity and its subsidiaries, and allow the financial results of that VIE entity and its subsidiaries to be consolidated into our consolidated financial statements.

See "Related Party Transactions" for more information on the agreements between us and our related parties, including the variable interest entities.

Confirmations and risks relating to the variable interest entity structure

Our PRC Legal Adviser is of the opinion that:

(a) the ownership structures of the VIE Entities and our corresponding subsidiaries in China do not and will not violate any applicable PRC laws and regulations currently in effect;

(b) each of the contractual arrangements entered into by the VIE Entities, the corresponding subsidiaries and the respective VIE equity holders governed by PRC laws and regulations is valid, legal and binding, and does not and will not violate any applicable PRC laws and regulations or their respective articles of association currently in effect; and

(c) each of the contractual arrangements entered into by the VIE Entities, the corresponding subsidiaries and the respective VIE equity holders governed by PRC laws and regulations will not be deemed as "concealment of illegal intentions with a lawful form" and void under the PRC Contract Law.

Based on the above, our directors believe that the agreements underlying the contractual arrangements as described above that confer significant control and economic benefits from the variable interest entities to us are enforceable under the relevant laws. Nevertheless, any violations by the variable interest entities of our agreements with them could disrupt our operations or adversely affect our services. See "Risk Factors — Risks related to our corporate structure."

Additionally, we have been advised by our PRC Legal Adviser that there are substantial uncertainties regarding the interpretation and application of current and future PRC Laws. Accordingly, PRC regulatory authorities or courts may take a view that is contrary to the opinion of our PRC Legal Adviser. It is uncertain whether any new PRC Laws relating to contractual arrangements will be adopted, or if adopted, what the Laws would provide. If we or any of our VIE entities are found to be in violation of existing or future PRC Laws, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authority would have broad discretion to take action in dealing with the violation or failure, in which case, we could be subject to severe penalties, including being prohibited from continuing our operations or unwinding the contractual arrangements. See "Risk Factors — Risks related to our corporate structure" and "Risk Factors — Risks related to doing business in China."

We have considered the costs and difficulties of acquiring insurance on commercially reasonable terms, and consider it impractical for us to have insurance to cover these risks. Accordingly, we have not purchased insurance to cover the risks relating to the contractual arrangements.

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC regulators in operating our business through variable interest entities under the contractual arrangements.

Listing on Nasdaq

On June 30, 2000, we listed our ADSs on Nasdaq under the symbol "NTES."

We believe that the Listing on the Hong Kong Stock Exchange would afford us greater access to capital markets, and in particular, capital markets in Asia, and would attract a broader Asian and international investor profile that would be more representative of our Chinese and international user base.

In October 2019, we separately listed the ADSs of our subsidiary, Youdao, on the New York Stock Exchange under the symbol "DAO."

Disposal of Kaola

On September 6, 2019, we entered into an agreement with a subsidiary of Alibaba Group Holding Limited ("**Alibaba**") to sell our e-commerce platform Kaola for approximately US$1.9 billion. The consideration was comprised of approximately US$1.6 billion in cash payable to us and Kaola equity award holders, as well as approximately 14.3 million ordinary shares of Alibaba issued to us. Following the completion of the transaction, Kaola was deconsolidated and its historical financial results prior to the disposal were accordingly reflected in our consolidated financial statements as discontinued operations.