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## SUMMARY

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This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with the full prospectus. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk Factors.” You should read that section carefully before you decide to invest in the Offer Shares.

### OVERVIEW

#### Our mission

Our mission is to create wonders through delivering premium content and excellent service to users. (以優質的內容和服務，為用戶創造驚喜).

This mission has guided us through the past 23 years in delivering premium content and services. We started as a Chinese internet portal in the late 1990s, and established our media and e-mail services that continue to thrive today; strategically expanded into online games in 2001, which now makes us the second largest mobile game company in the world in terms of combined iOS and Google Play user spending in 2019, according to App Annie; launched our Youdao business in 2006 that eventually became an NYSE-listed intelligent learning platform; introduced NetEase Cloud Music, a music streaming platform, in 2013; and opened our e-commerce platform Yanxuan in 2016, which quickly emerged as a destination for private label merchandise.

#### Our vision

Founded by William Lei Ding in 1997, our Company has a vision of fostering collaboration and realizing people’s aspiration for a better life through technology and innovation (網聚人的力量，用科技創新締造美好生活).

#### Our core values

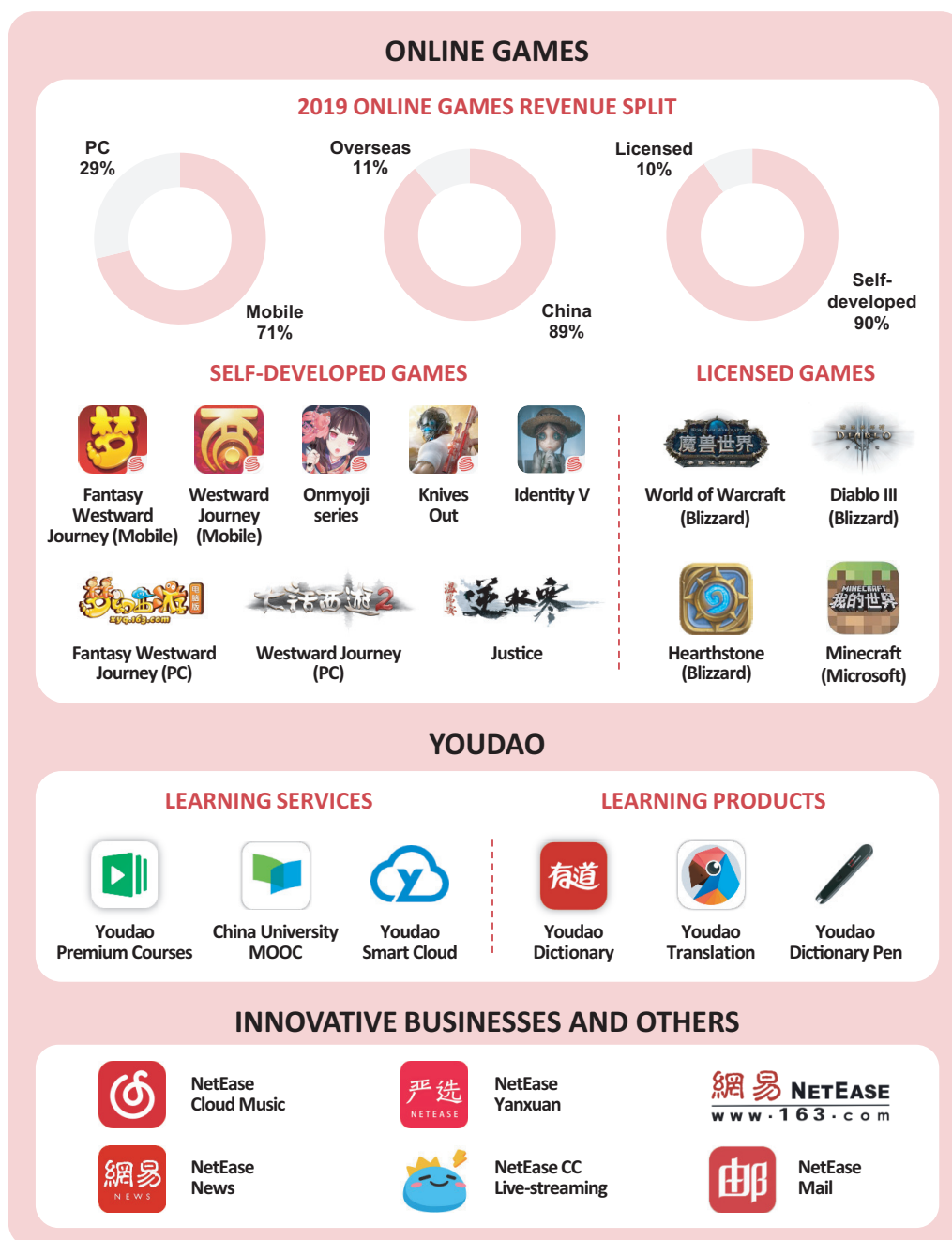
The following integrated concepts form the fundamentals of our corporate values:

- Passion;
- User-centricity;
- Innovation; and
- Harmony.

Since Day 1, we have persistently focused on our core values, which solidify our services and products, motivate us to create and grow new ideas, and serve as the compass for our endless exploration of new initiatives and opportunities.

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## Who we are today



We have a successful online game business, developing and operating a rich portfolio of highly popular titles. We currently offer over 140 mobile and PC games across a wide range of genres, satisfying the ever-growing and diversifying needs of the global gamer community. Leveraging our user insights and execution expertise, we also incubated and developed in-house a pipeline of innovative and successful businesses, including intelligent learning and other businesses, ranging from music streaming and private label e-commerce to internet media, e-mail services and others. As of December 31, 2019, we had over 1.0 billion registered e-mail users and over 800 million NetEase Cloud Music registered users. We also had over 100 million Youdao average MAUs in 2019.

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### *Online games*

We are the second largest mobile game company in the world in terms of combined iOS and Google Play user spending in 2019, according to App Annie. Our expertise in developing and operating game content has laid the foundation for successful overseas expansion. In 2019, overseas games revenues accounted for 11% of our total games revenues.

Meticulously crafted and imbued with operational expertise distilled from decades of experience, many NetEase games have secured their places among the most successful IP franchises in the history of online games. Over the past two decades, we have consistently rolled out blockbuster game titles, and maintained their longevity and vitality through frequent content updates and other operational innovations. Our first major flagship game franchise *Westward Journey Online*, which debuted in 2001, remains popular with gamers today as a result of continued content and format updates, as well as innovation in play modes over the past 19 years. Just to name a couple more examples among our star-studded line-up of popular online games, *Onmyoji* topped the China iOS grossing chart multiple times in 2019, and *Knives Out* topped Japan's iOS grossing chart multiple times in 2019, testifying to the global appeal of our games.

As a true testament to our in-house game development and operational strengths, we have established a distinguished track record of long-term collaborations with revered global IP powerhouses and studios such as Blizzard, Marvel, Microsoft and Warner Brothers. With Blizzard, our collaboration initially started with PC game licensing for the China market in 2008 and has since been broadened to the co-development of *Diablo® Immortal™*, a milestone in Blizzard's foray into mobile games with its iconic *Diablo* franchise. *MARVEL Super War*, our collaboration with Marvel Entertainment, has gained widespread popularity since its official launch in December 2019 and topped many iOS download charts in Southeast Asia.

### *Intelligent learning*

Youdao is an intelligent learning company in China with over 100 million average MAUs in 2019, and has achieved early success in a number of overseas markets. Starting from online knowledge tools, Youdao currently offers a comprehensive suite of learning services and products that are accessible, reliable and trustworthy. For tens of millions of people, Youdao is the go-to destination for looking up a word, translating a foreign language, preparing for an exam, or learning a new skill.

In 2007, Youdao launched its flagship Youdao Dictionary, which had over 50 million average MAUs in 2019. The early success of Youdao Dictionary and other learning tools has enabled us to attract a massive user base, build a strong brand, and channel this organic user traffic into a broad range of services and products addressing lifelong learning needs of pre-school, K-12 and college students as well as adult learners, including online learning services and products and smart devices. Our smart devices seamlessly integrate advanced AI algorithms and data analytics, which serve to supplement our online courses and learning products and further enhance users' learning experience and efficiency.

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### *Innovative businesses and others*

We have incubated and developed in-house a number of innovative and thriving businesses.

NetEase Cloud Music is a popular music streaming platform in China with over 800 million registered users as of December 31, 2019. It delivers a differentiated and premium user experience in terms of the music offered. Focused on discovering and promoting emerging musicians, NetEase Cloud Music has rapidly grown into the destination of choice for exploring new and independent music among music enthusiasts in China. Our vibrant community had attracted over 100,000 independent musicians as of December 31, 2019, generating over 270 billion playbacks of their songs in 2019.

Yanxuan is our e-commerce platform that primarily sells private label products with a strong emphasis on quality and value for money. Product categories include apparel, homeware, kitchenware and other general merchandise which we primarily source from original design manufacturers in China. Products and manufacturers are carefully selected with the goal of achieving high value for money. Yanxuan has established close partnerships with its selection of quality manufacturers. It utilizes data analytics to help these suppliers enhance their efficiency and product appeal, particularly in terms of merchandise design and production.

NetEase Media is a well-established internet media platform in China delivering professional news and other quality information to our users. Our media platform has three components, the NetEase News mobile application, [www.163.com](http://www.163.com) portal and a set of other vertical mobile products. Our media platform offers a wide range of features that promote user interactions and foster a vibrant online user community who actively contribute to the commentary sections. Our drive for journalistic integrity and high-quality content offerings has enabled us to attract a coveted demographic of engaged users.

Other innovative businesses include NetEase CC Live streaming, a platform offering various live streaming content with a primary focus on game broadcasting, and NetEase Mail, an email service provider in China with over one billion registered users as of December 31, 2019.

Our persistent focus on core values, coupled with solid execution, has enabled us to weather the numerous seismic global challenges since the late 1990s and thrive in the complex and competitive Chinese internet ecosystem, consistently delivering top- and bottom-line growth and value to our shareholders. Net revenues for fiscal year 2019 were RMB59,241.1 million, growing by 15.8% year-over-year from RMB51,178.6 million for fiscal year 2018. Net income from continuing operations attributable to our shareholders for fiscal year 2019 totaled RMB13,275.0 million, increasing by 60.1% from RMB8,291.1 million for fiscal year 2018. We have instituted quarterly dividend payments since 2014 and have announced several share repurchase programs since 2011.

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### WHAT WE HAVE LEARNED FROM THE PAST 23 YEARS

We feel fortunate to have chosen the path of pursuing original content creation and building our proprietary know-how and R&D capabilities since the beginning of our journey. Looking back at the past two decades, only through such pursuit can we truly sustain our leadership position amidst fierce competition in complex business environments, elevate the standards of the Chinese internet industry, and secure an enduring legacy for each of our people who devoted themselves to this worthy endeavor. As we navigated new market trends and tackled new challenges over the years, the following key insights secured our success. Here is what worked for us:

- At the end of the day, it comes down to original content creation;
- Sharpening operational know-how is time-consuming, but is of critical importance to sustained long-term growth on a global scale;
- We strive for longevity and scalability in our games and beyond;
- We take pride in our user-centric culture to build long-lasting brand recognition;
- R&D investment in innovative technologies is essential, but must be purpose-driven; and
- Ultimately, it depends on the people.

### WHAT WE PLAN TO FOCUS ON IN THE FUTURE

We will continue to think long-term. All future strategies will be formed, evaluated, adjusted, re-formed, re-evaluated, and re-adjusted around a long-term vision of sustainable excellence and financial success. We will continue to be prudent regarding capital allocation, with value-creation for shareholders as a priority. Our future strategies include a focus on:

- Strengthening our content creation capability;
- Pursuing operational excellence;
- Growing the community of happy users;
- Investing in technology and innovation;
- Expanding our global footprint; and
- Cultivating a deeper bench of talents.

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### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The selected consolidated statements of operations and comprehensive income data for the years ended December 31, 2017, 2018 and 2019 and the selected consolidated balance sheet data as of December 31, 2017, 2018 and 2019 have been derived from our audited consolidated financial statements contained in the Accountant's Report in Appendix IA. The selected consolidated statements of operations and comprehensive income data for the three months ended March 31, 2019 and 2020 and the selected consolidated balance sheet data as of March 31, 2020 have been derived from our unaudited condensed interim consolidated financial information included in this document and have been prepared on the same basis as our audited consolidated financial statements. Our consolidated financial statements have been prepared in accordance with U.S. GAAP.

The following selected consolidated financial data for the periods and as of the dates indicated are qualified by reference to and should be read in conjunction with the Accountant's Report in Appendix IA and "Financial Information."

The summary of historical financial information set forth below includes translations of financial data in Renminbi into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB7.0808 to US\$1.00, the exchange rate on March 31, 2020 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board.

Our historical results for any prior period do not necessarily indicate our results to be expected for any future period.

#### **Factors affecting our results of operations**

The following are the primary factors affecting our results of operations:

- Our ability to continue to deliver original and compelling content and service offerings and effectively operate our existing products;
- Our ability to grow our user base and drive user engagement and loyalty;
- Our ability to continue to develop proprietary technologies and apply them meaningfully;
- Our ability to manage our costs and expenses effectively across all business segments; and
- Our ability to make successful strategic investments and acquisitions.

For additional information, see "Financial Information — Factors Affecting Our Results of Operations."

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### Selected consolidated statements of operations and comprehensive income data

The following table sets forth our selected consolidated statements of operations and comprehensive income data for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
				(unaudited)	(unaudited)	(unaudited)
				(in thousands)		
<b>Net revenues:</b>						
Online game .....	36,281,642	40,190,057	46,422,640	11,850,184	13,518,244	1,909,141
Youdao .....	455,746	731,598	1,304,883	225,731	541,388	76,459
Innovative businesses and others .....	7,699,967	10,256,920	11,513,622	2,346,294	3,002,735	424,067
Total net revenues .....	44,437,355	51,178,575	59,241,145	14,422,209	17,062,367	2,409,667
Cost of revenues .....	(19,394,314)	(23,832,426)	(27,685,845)	(6,684,535)	(7,684,745)	(1,085,293)
<b>Gross profit .....</b>	<b>25,043,041</b>	<b>27,346,149</b>	<b>31,555,300</b>	<b>7,737,674</b>	<b>9,377,622</b>	<b>1,324,374</b>
<b>Operating expenses:</b>						
Selling and marketing expenses .....	(5,504,613)	(6,911,710)	(6,221,127)	(1,158,090)	(1,863,071)	(263,116)
General and administrative expenses ..	(2,381,842)	(3,078,635)	(3,130,298)	(786,850)	(885,434)	(125,047)
Research and development expenses ..	(4,161,673)	(7,378,460)	(8,413,224)	(2,037,694)	(2,142,649)	(302,600)
Total operating expenses .....	(12,048,128)	(17,368,805)	(17,764,649)	(3,982,634)	(4,891,154)	(690,763)
<b>Operating profit .....</b>	<b>12,994,913</b>	<b>9,977,344</b>	<b>13,790,651</b>	<b>3,755,040</b>	<b>4,486,468</b>	<b>633,611</b>
<b>Other income/(expenses):</b>						
Investment income/(losses), net .....	362,113	(22,383)	1,306,320	155,824	(109,731)	(15,497)
Interest income, net .....	666,616	586,671	821,774	172,206	345,184	48,749
Exchange (losses)/gains .....	(455,948)	(51,799)	25,166	(39,520)	244,057	34,467
Other, net .....	271,885	586,916	439,422	37,164	66,708	9,421
<b>Income before tax .....</b>	<b>13,839,579</b>	<b>11,076,749</b>	<b>16,383,333</b>	<b>4,080,714</b>	<b>5,032,686</b>	<b>710,751</b>
Income tax .....	(2,155,988)	(2,460,650)	(2,914,726)	(1,266,685)	(1,082,033)	(152,812)
Net income from continuing operations .....	11,683,591	8,616,099	13,468,607	2,814,029	3,950,653	557,939
Net (loss)/income from discontinued operations <sup>(1)</sup> .....	(834,454)	(2,138,682)	7,962,519	(350,755)	-	-
<b>Net income .....</b>	<b>10,849,137</b>	<b>6,477,417</b>	<b>21,431,126</b>	<b>2,463,274</b>	<b>3,950,653</b>	<b>557,939</b>

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	For the year ended December 31,			For the three months ended March 31,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
			(unaudited)	(unaudited)	(unaudited)	
	(in thousands)					
<b>Other comprehensive income</b>						
Unrealized losses on available-for-sale securities, net of tax . . . . .	(23,321)	–	–	–	–	–
Foreign currency translation adjustment . . . . .	(1,573)	18,624	(93,774)	(58,761)	150,103	21,199
<b>Total other comprehensive (loss)/income . . . . .</b>	<b>(24,894)</b>	<b>18,624</b>	<b>(93,774)</b>	<b>(58,761)</b>	<b>150,103</b>	<b>21,199</b>
<b>Total comprehensive income . . . . .</b>	<b>10,824,243</b>	<b>6,496,041</b>	<b>21,337,352</b>	<b>2,404,513</b>	<b>4,100,756</b>	<b>579,138</b>
Comprehensive (income)/loss attributable to noncontrolling interests and redeemable noncontrolling interests . . . . .	(141,198)	(76,912)	83,685	(12,373)	(22,830)	(3,224)
<b>Comprehensive income attributable to NetEase, Inc.’s shareholders . . . . .</b>	<b>10,683,045</b>	<b>6,419,129</b>	<b>21,421,037</b>	<b>2,392,140</b>	<b>4,077,926</b>	<b>575,914</b>

Note:

- (1) On September 6, 2019, we entered into an agreement with a subsidiary of Alibaba Group Holding Limited to sell our e-commerce platform Kaola for approximately US\$1.9 billion. Following the completion of the transaction, Kaola was deconsolidated and its historical financial results were accordingly reflected in our consolidated financial statements as discontinued operations.

We achieved strong operating results during the Track Record Period. For a discussion and analysis of the reasons for the changes in our key financial statement line items across periods, please refer to “Financial Information — Components of Results of Operations” and “Financial Information — Results of Operations.”



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### Selected consolidated balance sheet data

The table below sets forth our selected consolidated balance sheet data as of the dates indicated:

	As of December 31,			As of March 31,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
				(unaudited)	(unaudited)
	(in thousands)				
Cash and cash equivalents .....	2,467,467	4,977,432	3,246,373	5,592,847	789,861
Time deposits — current .....	30,603,369	32,900,287	53,487,075	50,515,092	7,134,094
Restricted cash — current .....	5,886,367	4,692,050	3,150,354	3,507,105	495,298
Accounts receivable, net .....	3,539,594	4,002,487	4,169,358	4,559,441	643,916
Inventories, net .....	984,228	1,065,615	650,557	562,117	79,386
Prepayments and other current assets .....	3,126,796	3,925,205	4,817,422	6,060,421	855,895
Short-term investments .....	9,702,609	11,674,775	15,312,595	19,373,366	2,736,042
Property, equipment and software, net .....	3,490,130	4,672,079	4,621,712	4,569,982	645,405
Long-term investments .....	2,683,776	5,245,108	9,293,868	9,217,017	1,301,691
Other long-term assets .....	1,088,089	2,930,069	5,666,610	5,670,163	800,780
<b>Total assets .....</b>	<b>71,031,415</b>	<b>86,967,928</b>	<b>112,124,371</b>	<b>118,653,818</b>	<b>16,757,120</b>
Accounts payable .....	1,070,976	1,201,210	1,212,303	1,197,007	169,050
Salary and welfare payables .....	2,076,160	2,799,212	2,957,360	2,429,147	343,061
Taxes payable .....	1,561,920	2,260,646	3,156,513	4,390,606	620,072
Short-term loans .....	6,623,502	13,658,554	16,828,226	19,624,535	2,771,514
Deferred revenue .....	6,049,903	7,718,485	8,602,227	9,981,353	1,409,636
Accrued liabilities and other payables .....	4,331,937	5,005,190	5,292,774	5,546,607	783,331
Short-term operating lease liabilities .....	—	—	191,454	238,071	33,622
Deferred tax liabilities .....	212,854	392,598	382,030	625,578	88,348
<b>Total liabilities .....</b>	<b>23,981,579</b>	<b>35,556,347</b>	<b>39,082,916</b>	<b>44,460,267</b>	<b>6,278,989</b>
NetEase, Inc.'s shareholders' equity .....	45,732,007	45,231,636	61,453,699	62,597,346	8,840,434
Noncontrolling interests .....	703,133	794,209	1,139,156	1,210,794	170,997
<b>Total shareholders' equity .....</b>	<b>46,435,140</b>	<b>46,025,845</b>	<b>62,592,855</b>	<b>63,808,140</b>	<b>9,011,431</b>

We recorded net current assets of RMB38,197.6 million, RMB33,606.7 million, RMB46,862.0 million and RMB46,813.7 million (US\$6,611.4 million), respectively, as of December 31, 2017, 2018 and 2019 and March 31, 2020. For a detailed discussion on our cash position as well as material changes in the various working capital items, see “Financial Information — Liquidity and Capital Resources.”

### Dividend policy

In May 2014, our board of directors approved a quarterly dividend policy commencing in 2014. Under this policy, quarterly dividends were set at an amount equivalent to approximately 25% of our anticipated net income after tax in each fiscal quarter. In the second quarter of 2019, our board of directors determined that quarterly dividends will be set at an amount equivalent to approximately 20%-30% of our anticipated net income after tax in each fiscal quarter. The determination to make dividend distributions and the amount of such distributions in any particular quarter will be made at the discretion of our board of directors and will be based upon our operations and earnings, cash flow, financial condition and other relevant factors. Our board of directors declared dividends of US\$0.69, US\$1.04, US\$4.14 and US\$1.02 per ADS for the first, second, third and fourth quarters of 2019, respectively. Our board of directors also approved an additional special dividend equivalent to US\$3.45 per ADS in the third quarter of 2019. All dividends declared in 2019 have been paid.

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### THE Q1 DIVIDEND

In May 2020, our board of directors approved the Q1 Dividend, and we expect to make dividend payments of approximately US\$158 million in aggregate on June 23, 2020 to Shareholders of record as of the close of business on June 12, 2020, the Record Date. The Q1 Dividend will be paid in U.S. dollars.

Prior to June 11, 2020 (U.S. Eastern Time), the price of our ADSs traded on Nasdaq reflects the entitlement of such ADS holders to receive the Q1 Dividend. June 11, 2020 (U.S. Eastern Time) is the first day of trading when the buyers of our ADSs are no longer entitled to the Q1 Dividend, because trades executed on June 11, 2020 (U.S. Eastern Time) will settle the day after the Record Date of the Q1 Dividend, making it too late for the buyers to receive the Q1 Dividend. Therefore, the price of our ADSs will be adjusted down on June 11, 2020 (U.S. Eastern Time) to reflect the ex-dividend nature of ADSs bought on or after such date.

After our Listing on the Hong Kong Stock Exchange on June 11, 2020, our Shares will immediately begin to trade *ex-dividend*. If you purchase our Shares through the open market, you will not be entitled to receive the Q1 Dividend. The trading price of our Shares immediately after our Listing on the Hong Kong Stock Exchange on June 11, 2020 may be lower than the comparable closing price of our ADSs on June 10, 2020. However, you should not interpret such difference as a discount on the price of our Shares offered to investors. Rather such discrepancy is, at least in part, the result of the different entitlement rights with respect to the Q1 Dividend. For additional information, see “Financial Information — Dividend Policy.”

#### Summary of key dates for the Q1 Dividend

Ex dividend date	:	June 11, 2020, the Listing Date
Closure of register of members	:	N/A
Record Date	:	June 12, 2020
Latest time for lodging transfer documents for registration with the Hong Kong Share Registrar	:	4:30 p.m. (Hong Kong Time) on June 12, 2020, the Record Date
Payment date	:	June 23, 2020

*All dates and times are Hong Kong Times for the purpose of the Q1 Dividend arrangement and solely in the context of the Global Offering.*

#### IMPORTANT NOTICE TO INVESTORS:

**The Q1 Dividend will be paid in U.S. dollars. All investors who have applied for Offer Shares through CCASS EIPO service and been successfully allocated Offer Shares will be entitled to the Q1 Dividend provided that the Global Offering becomes unconditional, irrespective of whether they sell or otherwise dispose of their corresponding allocated Offer Shares on the Hong Kong Stock Exchange immediately after dealing commences on the Listing Date, unless such investors (i) conduct any non-exchange trades and the ownership of the Shares are transferred to a third party on or before the Record Date, or (ii) withdraw physical certificates of such Shares from CCASS and subsequently sell or otherwise dispose of their corresponding Shares by lodging completed transfer forms accompanied by the relevant share certificates with the Hong Kong Share Registrar before 4:30 p.m. (Hong Kong Time) on the Record Date for transferring the title to a third party.**

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Shareholders and potential investors should note that those who have chosen to apply through White Form eIPO services and to have physical share certificates issued to themselves will NOT be entitled to the Q1 Dividend, if they sell or otherwise dispose of their corresponding Shares, by lodging completed transfer forms accompanied by the relevant share certificates with the Hong Kong Share Registrar before 4:30 p.m. (Hong Kong Time) on the Record Date (being Friday, June 12, 2020) for transferring such title to a third party. Any subsequent purchasers who acquire the relevant Offer Shares from such holders of physical share certificate and lodge completed transfer forms accompanied by the relevant share certificates with the Hong Kong Share Registrar by 4:30 p.m. (Hong Kong Time) on the Record Date, WILL BE entitled to the Q1 Dividend.

Investors who purchase the Company's Shares on the Hong Kong Stock Exchange AFTER the commencement of dealings will NOT receive the Q1 Dividend.

In the event that there are unforeseen reasons (including but not limited to bad weather, Extreme Conditions or other events in the nature of force majeure, together the "Unforeseen Reasons") that result in the Listing Date being delayed to a date after the Record Date but no later than June 18, 2020 (the "Delay") and the Delay is solely due to the Unforeseen Reasons, the Company undertakes to pay investors of the Global Offering an amount equal to the Q1 Dividend (based on the investor's corresponding number of Offer Shares allocated in the Global Offering) if the investor would have been entitled to the Q1 Dividend had the Delay not otherwise occurred.

Investors who are interested in participating in the Global Offering, if choosing to refer to our ADS prices during the Hong Kong Public Offering period, prior to the Price Determination Date, should note that such trading prices will be cum dividend. Upon commencement of dealings in our Shares on the Hong Kong Stock Exchange on the Listing Date, our Shares will trade ex-dividend, and may not be comparable to the price of our ADSs during the Hong Kong Public Offering period, on the Price Determination Date and on the day immediately before the Listing Date (all cum dividend). Such discrepancy will, at least in part, be the result of the different entitlement rights with respect to Q1 Dividend. However, investors should not interpret such difference as a discount on the price of our Shares offered for the Global Offering.

In addition, payment of the Q1 Dividend may affect the value of our Shares and the trading price of our ADSs and Shares in the U.S. and Hong Kong markets, respectively. Accordingly, Shareholders and potential investors should exercise caution when dealing in our Shares.

## SHAREHOLDING AND CORPORATE STRUCTURE

### Our major shareholders and controlling shareholders

Shining Globe International Limited holds 1,456,000,000 Shares as of the Latest Practicable Date, representing approximately 42.5% of our total issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised and no additional Shares are issued under the RSU Plans), and together with the entities and person that control it,

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including William Lei Ding, as set out in “Relationship with our Controlling Shareholders” are our controlling shareholders. Orbis Investment Management Limited and Allan Gray Australia Pty Limited are interested in and control 167,410,775 Shares, representing approximately 5.1% of our total issued share capital as at the Latest Practicable Date and approximately 4.9% of our total issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised and no additional Shares are issued under the RSU Plans), and will no longer remain our major shareholder immediately after the Global Offering.

See “Major Shareholders,” “History” and “Relationship with our Controlling Shareholders.”

### **Our VIE structure**

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 conduct all of our business segments through the variable interest entities and their subsidiaries, with which we have entered into contractual arrangements. We describe our VIE structure and a typical set of contractual arrangements with the variable interest entities in the sub-sections “Variable interest entity structure,” “Transferring the economic benefits under the contractual arrangements” and “Ensuring effective control over the variable interest entities under the contractual arrangements” in “History.” As a result, we are able to consolidate the financial results of the variable interest entities and their subsidiaries into our Company’s consolidated financial statements.

### **RISK FACTORS**

There are certain risks involved in our business and industries, our corporate structure, our business operations in China, investing in our Shares and ADSs, the Listing and the Global Offering, many of which are beyond our control. For example, these risks include, among others, the following risks relating to our business:

- If we fail to develop and introduce popular, high-quality online games in a timely and successful manner, we will not be able to compete effectively and our ability to generate revenues will suffer;
- If we are unable to continue to extend the life of existing online games that will encourage continued engagement with the games through the addition of new features or functionalities, our business may be negatively impacted;
- Any difficulties or delays in receiving approval from the relevant government authorities for the games operated by us or any expansion packs for, or material changes to, such games could adversely affect such games’ popularity and profitability;
- The success and future growth of our Youdao business will be affected by the user acceptance and market trend of integration of technology and learning;
- Our intelligent learning, music streaming, e-commerce and other innovative businesses are subject to a broad range of laws and regulations. Any lack of requisite approvals, licenses or permits applicable to these businesses or any failure to comply with applicable laws or regulations may have a material and adverse impact on our business, financial condition and results of operations; and

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## SUMMARY

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- We may be unable to compete successfully against new entrants and established industry competitors.

### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$21,279.0 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK\$126.00 per Offer Share for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK\$24,486.8 million if the Over-allotment Option is exercised in full. We plan to use the net proceeds we will receive from the Global Offering for the following purposes:

- approximately 45% (approximately HK\$9,575.6 million, assuming the Over-allotment Option is not exercised) for globalization strategies and opportunities. We will continue to improve our global presence by expanding our online game offerings in overseas markets, such as Japan, the United States, Europe and Southeast Asia and enhancing our global R&D and game design capabilities. We will also continue to explore global opportunities by investing in and collaborating with international game developers, IP and content owners. Furthermore, we aim to grow our intelligent learning and other innovative businesses in overseas markets with large potential user bases and favorable demographic characteristics.
- approximately 45% (approximately HK\$9,575.6 million, assuming the Over-allotment Option is not exercised) for fueling our continued pursuit of innovation. We will continue to expand and enhance our innovative content offerings, and strengthen our innovative technologies. Our R&D approach will remain focused on bringing commercially viable technologies into specific applications that can further enhance user experience. In addition, we will continue to attract and nurture talents to support further innovation and growth.
- approximately 10% (approximately HK\$2,127.8 million, assuming the Over-allotment Option is not exercised) for general corporate purposes. We will use the remaining proceeds for general corporate purposes, working capital needs and potential strategic investments and acquisitions, although we have not identified any specific investments or acquisition opportunities at this time.

See “Use of Proceeds” for further details.

### THE LISTING

Our ADSs have been listed and traded on Nasdaq since June 30, 2000. Dealings in our ADSs on Nasdaq have been conducted in U.S. dollars. We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) of the Hong Kong Listing Rules. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars. Our Shares will be traded on the Hong Kong Stock Exchange in board lots of 100 Shares. For additional information, see “Information about This Document and the Global Offering.”

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## SUMMARY

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### WAIVERS AND EXEMPTIONS

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance and the SFO, and a ruling under the Takeovers Codes. For additional information, see “Waivers and Exemptions.”

Among the various waivers that we have applied for, we have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirements in Paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin off a subsidiary entity and list it on the Hong Kong Stock Exchange within three years of the Listing. While we do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as at the date of this document, we continue to explore the ongoing financing requirements for our various businesses and may consider a spin-off listing on the Hong Kong Stock Exchange for one or more of those businesses (other than our online game business) within the three-year period subsequent to the Listing. The waiver granted by the Hong Kong Stock Exchange is conditional upon us confirming to the Hong Kong Stock Exchange in advance of any spin-off that it would not render our Company incapable of fulfilling the eligibility requirements under Rule 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun off at the time of the Listing (calculated cumulatively if more than one entity is spun off). We cannot assure you that any spin-off will ultimately be consummated, whether within the three-year period after the Listing or otherwise, and any such spin-off will be subject to market conditions at the time. In the event that we proceed with a spin-off, the Company’s interest in the entity to be spun-off will be reduced accordingly.

We enjoy exemptions from certain obligations under U.S. securities laws and the Nasdaq rules as a foreign private issuer as defined under the U.S. Exchange Act. Investors should exercise care when investing in our Shares and/or ADSs. See “Information about This Document and the Global Offering — Summary of Exemptions as a Foreign Private Issuer in the U.S.”

### ARTICLES OF ASSOCIATION

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Articles of Association, the Cayman Companies Law, as well as the common law of the Cayman Islands. The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong. See “Risk Factors — Risks related to our Shares, the ADSs, the Listing and the Global Offering — Holders of our Shares and ADSs may have difficulty effecting service of process and enforcing judgments obtained against us, our directors and our management, the ability of U.S. authorities to bring actions in the PRC may also be limited, and our Articles of Association include certain provisions that may be different from common practices in Hong Kong.” See “Information about This Document and the Global Offering” and “Waivers and Exemptions — Shareholder Protection Requirements.”

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## SUMMARY

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### OFFERING STATISTICS

**Based on the indicative  
offer price per Offer  
Share of HK\$126.00  
for Both Hong Kong  
Public Offering and  
International Offering**

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Our market capitalization <sup>(1)</sup> .....	HK\$432.1 billion
Unaudited pro forma adjusted net tangible assets per Share <sup>(2)</sup> .....	RMB23.85 or HK\$26.07

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Notes:

- (1) The calculation of market capitalization is based on 3,429,395,456 Shares that will be in issue immediately following the Global Offering, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase and cancellation of Shares and/or ADSs that we may make after the Latest Practicable Date.
- (2) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 3,429,395,456 Shares that will be in issue assuming that the Global Offering had been completed on March 31, 2020, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase and cancellation of Shares and/or ADSs that we may make after the Latest Practicable Date.

### LISTING EXPENSES

We expect to incur listing expenses of up to approximately RMB299.6 million (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK\$126.00 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect to recognize RMB9.8 million as general and administrative expenses in the fiscal year ending December 31, 2020 and RMB289.8 million as a deduction in equity directly.

### NO MATERIAL ADVERSE CHANGE

Our directors confirm that, as of the date of this document, there has been no material adverse change in our financial or trading position since December 31, 2019 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there has been no event since December 31, 2019 that would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix IA.

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## SUMMARY

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### RECENT DEVELOPMENTS

The following sets forth our selected unaudited financial data for the three months ended March 31, 2019 and 2020. Please refer to “Financial Information” and “Risk Factors” included elsewhere in this document for information regarding trends and other factors that may affect our results of operations.

- Net revenues increased by 18.3% to RMB17,062.4 million (US\$2,409.7 million) for the three months ended March 31, 2020 from RMB14,422.2 million for the three months ended March 31, 2019.
  - Net revenues from online game services increased by 14.1% to RMB13,518.2 million (US\$1,909.1 million) for the three months ended March 31, 2020 from RMB11,850.2 million for the three months ended March 31, 2019.
  - Net revenues from Youdao increased by 139.8% to RMB541.4 million (US\$76.5 million) for the three months ended March 31, 2020 from RMB225.7 million for the three months ended March 31, 2019.
  - Net revenues from innovative businesses and others increased by 28.0% to RMB3,002.7 million (US\$424.1 million) for the three months ended March 31, 2020 from RMB2,346.3 million for the three months ended March 31, 2019.
- Gross profit increased by 21.2% to RMB9,377.6 million (US\$1,324.4 million) for the three months ended March 31, 2020 from RMB7,737.7 million for the three months ended March 31, 2019.
- Total operating expenses were RMB4,891.2 million (US\$690.8 million) for the three months ended March 31, 2020, representing an increase of 22.8% from RMB3,982.6 million for the three months ended March 31, 2019.
- Net income from continuing operations attributable to our shareholders increased by 29.9% to RMB3,551.0 million (US\$501.5 million) for the three months ended March 31, 2020 from RMB2,732.9 million for the three months ended March 31, 2019.
- Net income attributable to our shareholders increased by 49.1% to RMB3,551.0 million (US\$501.5 million) for the three months ended March 31, 2020 from RMB2,382.1 million for the three months ended March 31, 2019.
- Basic net income from continuing operations per ADS for the three months ended March 31, 2020 was US\$3.88.

In addition, the COVID-19 outbreak has caused and may continue to cause us to implement temporary adjustments of work schemes allowing employees to work from home. We prioritize the health and safety of our employees, and have also taken various other preventative and quarantine measures across our Group, including monitoring our employees' health and optimizing our technology systems to better serve a remote working environment. These measures have enabled us to continue carrying out our business without disruption.



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## SUMMARY

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The deterioration in economic conditions in connection with the global outbreak has caused, and may continue to cause, decreases or delays in advertising and marketing service spending and budgets of customers across our platforms. Our online games and intelligent learning businesses have not been materially impacted by the pandemic as of the date of this document. The extent to which the COVID-19 outbreak impacts our results will depend on future developments, which are highly uncertain and cannot be predicted. As of the date of this document, we are not aware of any material adverse effects on our financial statements as a result of the COVID-19 outbreak.

On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act (the “**Kennedy Bill**”). If passed by the U.S. House of Representatives and signed by the U.S. President, the Kennedy Bill could cause investor uncertainty for affected issuers, including us, the market price of our ADSs could be adversely affected, and we could be delisted from Nasdaq if we are unable to meet the Public Company Accounting Oversight Board inspection requirement proposed by the Kennedy Bill in time. For additional information, see “Risk Factors — Risks related to our Shares, the ADSs, the Listing and the Global Offering — Our auditor of the consolidated financial statements included in our annual report on Form 20-F filed with the SEC, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and consequently you are deprived of the benefits of such inspection.”

In May 2020, our board of directors approved the Q1 Dividend, and we expect to make dividend payments of approximately US\$158 million in aggregate on June 23, 2020 to Shareholders of record as of the close of business on June 12, 2020. For additional information, see “Financial Information — Dividend Policy.”