NTES Close Read

2026-03-27

NETEASE INC (NTES) — Close Read Report

Generated 2026-03-26

Business Overview — NetEase, Inc. (NTES)

1. Business Description

NetEase, Inc. is a Chinese internet technology company headquartered in Hangzhou, China. Its primary business is developing and operating proprietary online games across PC and mobile platforms. Beyond games, the company has incubated adjacent platforms from a shared technology and user base: NetEase Cloud Music (music streaming), Youdao (AI-powered intelligent learning tools and courses), and an Innovative Businesses & Others cluster covering e-commerce (Yanxuan), digital advertising, email services, and payment infrastructure. Revenue is overwhelmingly China-sourced, with modest international game publishing activity that does not yet register as a material geographic segment.

Source: MD&A overview, FY2022 and FY2024 filings.

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2. Revenue Model

Segment	Revenue Mechanism	Character
Games and Related Services	In-game virtual item purchases; game licensing	Primarily transactional; engagement-driven
NetEase Cloud Music	Streaming subscriptions + advertising	Recurring (subscription) + transactional
Youdao	Course fees, SaaS/AI tool subscriptions	Recurring + transactional
Innovative Businesses & Others	E-commerce sales; advertising; platform fees	Transactional

Games revenue is not contractually recurring — management explicitly flags that results depend on “the frequency of in-game purchases of virtual items” and user engagement mix (MD&A, FY2024). This makes the top revenue line discretionary and sensitive to content quality cycles and new title launches. R&D spending to sustain this pipeline was RMB 17.5B (US2.4B) in FY2024, up 6.3% year-over-year, representing approximately 15.7% of total revenue (MD&A, FY2024).

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3. Revenue Concentration

Segment mix (Compustat operating drivers):

Year	Top Segment	Top-1 Share	Top-2 Share	HHI
FY2022	Games and Related Services	38.6%	77.3%	0.308
FY2023	Games and Related Services	78.8%	87.2%	0.637
FY2024	Games and Related Services (est.)	~80%+	n/a	n/a

> [!] Concentration risk: Games and Related Services exceeded 40% of revenue in FY2023 (78.8%) and likely FY2024, creating significant dependence on a single regulatory domain and content approval cycle.

Geographic mix: US revenue share was 0.0% in both FY2022 and FY2023 per operating drivers. Revenue is substantially China-sourced. International game publishing (including independently developed titles for global markets) is disclosed in filings but does not register as a separate material geography in segment disclosures through the periods covered.

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4. Business Model Type: Asset-Light

Metric	Value	Source
Revenue (FY2024)	CNY 111.83B	Morningstar
CapEx (FY2024)	CNY 2.00B	Morningstar
CapEx / Revenue	~1.8%	Derived
Gross Margin	63.5%	Morningstar
FCF Margin	34.0%	Morningstar
ROIC	21.3%	Morningstar

CapEx/revenue of ~1.8% places NetEase firmly in the asset-light category (<5% threshold). The company's disclosed capital requirements consist of office building construction and server/facility acquisition (MD&A, FY2024) — not capital-intensive manufacturing or network infrastructure. Material cash commitments are dominated by operating leases, server/bandwidth service fees, and content licensing royalties. The 63.5% gross margin and 34.0% FCF margin are consistent with a digital-content software model where marginal delivery costs are low and incremental revenue converts efficiently to cash.

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5. Structural Moats and Dependencies

Disclosed competitive advantages (MD&A, FY2022–FY2024): - Original IP ownership: Management consistently emphasizes being an "original content provider" — proprietary game titles rather than pure licensing. This reduces ongoing royalty obligations and supports margin. - Proprietary technology platform: Internal technology development across gaming, music, and education is described as "a critical competitive advantage" that enables differentiated user experiences (MD&A, FY2022). - Brand and community effects: Strong brand recognition and platform stickiness cited across Cloud Music and gaming; community features and engagement loops create switching costs. - Execution and incubation capability: Track record of building new businesses (Cloud Music, Youdao) from shared infrastructure, reducing marginal development cost for adjacent products.

Critical dependencies (Risk Factors, FY2023–FY2024): - Third-party mobile platforms: Games and content are distributed via Apple App Store and Android app stores. NetEase is subject to platform operators' standard terms; policy changes or violations could eliminate distribution access — a potentially material revenue dependency (Risk Factors, FY2024). - VIE contractual structure: NetEase operates in China through Variable Interest Entities. The listed parent cannot make direct capital contributions to VIEs; all fund transfers flow through subsidiary loans and capital injections. Regulatory disruption to VIE arrangements could impair operational control and fund repatriation (Risk Factors, FY2024). - PRC regulatory approval for games: New online game launches in China require government approval. Delays or denials create revenue timing risk given the company's reliance on new title launches to sustain engagement. - Regulatory exposure across businesses: Youdao's after-school tutoring activities are subject to the PRC's compulsory-education tutoring restrictions; Cloud Music is subject to music licensing and content regulations; payment and e-commerce activities face additional licensing requirements (Risk Factors, FY2023–FY2024). - Content cannibalization: Management discloses that new game releases may draw players from existing titles, reducing revenue from higher-margin legacy games. This creates a structural treadmill requiring continuous pipeline delivery (Risk Factors, FY2024).

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6. Sector Context

Screening template: CORP_DEFAULT

NetEase carries no regulated utility pricing, real asset backing, telecom network infrastructure, or cyclical transport exposure. CORP_DEFAULT applies with standard threshold settings. Key implications given the financial profile:

- Balance sheet strength: Debt/Equity of 0.05 and Current Ratio of 3.42 indicate conservative capitalization; standard leverage veto thresholds are very unlikely to bind.
- Margin trajectory: Operating margin has expanded from ~23.6% (5-year average) to 31.6% (FY2024), driven primarily by COGS efficiency improvements rather than revenue acceleration — COGS contributed +41.1% of OI change in FY2023 and +34.0% in FY2024 (operating drivers). Revenue contributed negatively (-30.0%) to OI change in FY2024, flagging top-line deceleration even as margins improved.
- Revenue growth: 1-year revenue growth of 5.8% and 3-year CAGR of 5.4% (Morningstar) reflect a mature core gaming business supplemented by slower-growing adjacent verticals.
- OI growth: OI grew 23.4% in FY2024 on 5.8% revenue growth — a margin-recovery story, not a volume-expansion story.

Screening Summary — NTES (NetEase, Inc.)

2026-03-26 | Quote currency: USD | Financial currency: CNY

Screening Layer Status

Layer	Status	Reason
Veto Screening	N/A	No screening CSV data available
Durability Ranking	N/A	No screening CSV data available
Price Grade	N/A (peer-relative context unavailable)	No screening CSV data available
Two-Track Assignment	N/A	Requires veto pass + durability bin
Sector Template	N/A	Not applied — likely `CORP_DEFAULT` (gaming/tech)

> Formal screening layers (veto, durability, price) were not executed. Valuation metrics below are derived from live yfinance data only.

[!] Cross-Currency Caution

Market cap and quote price are in USD; enterprise value and free cash flow are denominated in CNY. Raw EV-to-market-cap comparisons and FCF yield are suppressed. EV-based yields (EV/EBITDA yield, EV/Sales yield) use CNY denominators and are internally consistent but cannot be directly compared to USD-denominated yields without FX normalization.

Live Valuation Metrics

Source: yfinance, 2026-03-26

Metric	Value	Notes
Current Price	109.94	USD
Market Cap	70.71B	USD
Enterprise Value	CNY 199.49B	CNY — not USD-comparable without FX
P/E (Trailing)	14.47x	—
P/E (Forward)	10.86x	—
Price/Book	15.11x	—
EV/EBITDA	5.24x	Low absolute multiple
EV/Revenue	1.77x	—

Derived Yields (yfinance live data, 2026-03-26)

Yield Metric	Value	Spread vs. 10Y UST (4.33%)	Notes
Earnings Yield	6.91%	+258 bps	= 1 / P/E trailing
EV/EBITDA Yield	19.08%	+1,475 bps	= 1 / EV/EBITDA; CNY-based
EV/Sales Yield	56.50%	—	= 1 / EV/Revenue; CNY-based; not a standard yield
FCF Yield	Suppressed	—	USD/CNY mismatch — do not use

Operating Fundamentals

Source: yfinance, 2026-03-26

Metric	Value	Screening Benchmark Context
Gross Margin	64.3%	Strong for software/gaming
Operating Margin	30.2%	High-quality range
Net Profit Margin	30.0%	Consistent with op. margin
ROE	22.6%	—
ROA	10.7%	—

Analyst Consensus

Source: yfinance, 2026-03-26

Item	Value
Mean Price Target	161.95
Target Range	132.04 – 199.58
Recommendation	Strong Buy
Implied Upside (to mean)	+47.3% from 109.94

Market Context

Source: FRED / market data, 2026-03-25

Factor	Value
10Y UST (risk-free rate)	4.33%
Equity Risk Premium (implied)	4.23%
Fed Funds Rate	3.64%
VIX	25.3
10Y–2Y Yield Spread	0 bps (flat)
Real Yield (10Y TIPS)	2.02%
Breakeven Inflation	2.34%

Earnings yield of 6.91% exceeds the 10Y UST by 258 bps and equals (risk-free 4.33% + ERP 4.23% − ~1.65%) approximately required return, suggesting modest valuation cushion at current price. Flat yield curve and VIX of 25.3 indicate moderately elevated macro risk.

Grade Definitions (for reference when screening data becomes available)

Grade	Meaning
Durability D1	Top quintile quality score (80–100 pts)
Durability D2	Second quintile (60–79 pts)
Durability D3–D5	Mid-to-low quality; D5 = bottom quintile
Price A	Cheapest decile vs. peers (peer-relative)
Price F	Most expensive decile vs. peers
Compounder track	Requires: veto hard pass + durability bin D1 or D2
Deep Value track	Requires: veto hard pass + survivability pass + NOT Compounder

Note: Price grades are peer-relative snapshots and carry staleness risk. Live yields above are authoritative for current valuation assessment.

Part 1: Revenue & Margins — NTES (NetEase Inc.)

Sources: Compustat quarterly/annual (FY2022–FY2024); SimFin annual (FY2020–FY2024). All figures USD millions unless noted.

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1. Revenue Trajectory (FY2022–FY2024)

Fiscal Year	Revenue (M)	YoY Growth	Gross Margin	Op Margin	Net Margin	Source
FY2022	13,990	n/a	57.6%	20.4%	21.1%	Compustat (quarterly sum)
FY2023	14,592	+4.3%	63.9%	26.8%	28.4%	Compustat (quarterly sum)
FY2024	14,426	–1.1%	64.8%	28.1%	28.2%	Compustat (annual)

SimFin reports different revenue for same periods (FY2023: 14,625M, +2.0% YoY; FY2024: 14,648M, +0.2% YoY) and lower gross margins (FY2023: 60.9%; FY2024: 62.5%), likely reflecting USD/RMB translation timing differences. Operating margin and net margin align closely across both sources (within 0.3 ppts), indicating the divergence is at the gross profit line, not the total P&L.

Inflection points:

- FY2022→FY2023 (+4.3% revenue, +37.3% OI): China gaming cycle recovery post-COVID. Gross margin expanded +6.3 ppts simultaneously — the gross profit increase of +1,260M exceeded total revenue growth of +602M, signaling structural mix/pricing improvement rather than pure volume leverage. This gross margin expansion is material: 1,260M = 8.6% of FY2023 revenue (above 5% threshold).
- FY2023→FY2024 (–1.1% revenue, +3.7% OI): Revenue stagnated. The annual figure conceals sharp intra-year divergence: Q2 and Q3 2024 grew +11.7% and +8.1% YoY respectively, while Q4 2024 collapsed –21.9% YoY (3,228M vs. 4,132M in Q4 2023) — a 904M shortfall representing 6.3% of FY2024 revenue (material per threshold). Despite revenue decline, operating income rose 145M, confirming structural margin improvement.

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2. Margin Analysis & Operating Leverage

Metric	FY2022	FY2023	FY2024	FY22→23 Δ	FY23→24 Δ
Gross Margin	57.6%	63.9%	64.8%	+6.3 ppts	+0.9 ppts
Operating Margin	20.4%	26.8%	28.1%	+6.4 ppts	+1.3 ppts
Net Margin	21.1%	28.4%	28.2%	+7.3 ppts	–0.2 ppts
FCF Margin	26.0%*	30.0%*	36.5%†	+4.0 ppts	+6.5 ppts

SimFin annual. †Compustat: OCF 5,436M – CapEx 175M = 5,261M / 14,426M.

Operating Leverage:

Period	Revenue Δ	OI Δ	Operating Leverage
FY2022 → FY2023	+4.3%	+37.3%	8.7×
FY2023 → FY2024	–1.1%	+3.7%	–3.4×

FY2022→2023 leverage of 8.7× reflects fixed-cost absorption from a trough margin base: OI grew +1,061M on only +602M of incremental revenue. FY2023→2024 is structurally distinct — operating income grew despite a revenue decline, confirming that the margin recovery is embedded in the cost base (not volume-dependent). The negative leverage ratio is a feature here, not a warning.

CapEx declining: FY2024 CapEx of 175M was –46.2% YoY (Compustat), contributing to the 6.5-ppt FCF margin expansion. FCF now exceeds net income at 126% FCF/NI ratio (SimFin FY2024).

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3. Quarterly Momentum (FY2023 Q1 – FY2024 Q4)

Quarter	Revenue (M)	QoQ Δ	YoY Δ	OI (M)	OI Margin	GM
FY2023 Q1	3,646	—	—	1,051	28.8%	63.8%
FY2023 Q2	3,118	–14.5%	—	780	25.0%	62.6%
FY2023 Q3	3,696	+18.5%	—	1,025	27.7%	64.6%
FY2023 Q4	4,132	+11.8%	—	1,052	25.5%	64.4%
FY2024 Q1	3,719	–10.0%	+2.0%	1,056	28.4%	65.5%
FY2024 Q2	3,483	–6.3%	+11.7%	956	27.4%	65.4%
FY2024 Q3	3,996	+14.7%	+8.1%	1,091	27.3%	64.9%
FY2024 Q4	3,228	–19.2%	–21.9%	951	29.4%	63.2%

Source: Compustat quarterly.

Key observations:

1. Q2 structural trough: Q2 is consistently NetEase's weakest quarter in both years (FY2023: 3,118M; FY2024: 3,483M). Sequential patterns of –14% to –19% entering Q2 and –10% to –19% entering Q4→Q1 appear to reflect game launch cycles and Chinese New Year seasonality.

2. Q4 2024 YoY collapse (–21.9%, –904M) is the dominant FY2024 event. Q4 2023 was the strongest quarter on record in this dataset (4,132M), creating an exceptionally difficult comparable. The 904M shortfall exceeds the 5% revenue materiality threshold (6.3% of FY2024 revenue). Whether driven by title timing, China gaming license cadence, or structural demand shift requires further investigation in the Business Description section.
3. Operating income showed asymmetric resilience in Q4 2024: OI fell only –9.6% YoY on a –21.9% revenue decline. Q4 2024 SG&A was 1,003M vs. 1,505M in Q4 2023 (–502M, –33%), implying significant variable cost flexibility. Q4 2024 OI margin of 29.4% was the highest single quarter in the dataset — cost cuts outpaced the revenue shortfall.
4. H1 2024 was strong, H2 deteriorated: YoY revenue growth was +2.0% (Q1), +11.7% (Q2), +8.1% (Q3), then –21.9% (Q4). The H1/H2 divergence signals the full-year –1.1% figure understates the deterioration in momentum at year-end.
5. Gross margins stabilized: All eight quarters from FY2023 Q1 through FY2024 Q4 held gross margins in the 62–66% band, a structural step-change above the FY2022 range of 55–59%. This suggests the margin recovery is durable and not quarter-specific.

Period attributions: Quarterly figures reflect fiscal quarters ending March, June, September, December. Annual Compustat FY2024 sourced from filing, not quarterly sum. SimFin figures are calendar-year aggregates as of FY2024 Q4 reporting.

Part 2: Cash Flow & Efficiency

2.1 Free Cash Flow Trajectory

Year	OCF (M)	CapEx (M)	FCF (M)	FCF Margin	FCF/NI	CapEx/Rev
FY2020	—	—	—	29.3%	168.2%	—
FY2021	—	—	—	25.0%	129.8%	—
FY2022	—	—	—	26.0%	123.5%	—
FY2023	—	~325 (implied)	4,391	30.0%	105.6%	~2.2%
FY2024	5,436	175	5,215	35.6%	126.2%	1.2%

Sources: SimFin annual (FCF margin, FCF/NI, FCF absolutes FY2020–2024). Compustat FY2024 (OCF 5,436M, CapEx 175M, CapEx YoY −46.2%). FY2023 CapEx implied: 175M ÷ (1 − 0.462) ≈ 325M.

Key observations:

- FCF margin recovery (material): Declined from 29.3% (FY2020) to 25.0% (FY2021) on elevated investment spend, then recovered to 35.6% (FY2024) — a 5-year high. The FY2023→2024 improvement of +5.6pp on ~14.6B revenue base represents ~820M incremental FCF (SimFin), exceeding the 5% revenue materiality threshold (721M).
- OCF/revenue divergence (material): OCF grew +9.1% YoY to 5,436M (Compustat FY2024) against a −1.1% revenue decline. The ~454M OCF improvement equals 11.2% of operating income (4,053M, Compustat FY2024), exceeding the 10% OI materiality threshold. Implies meaningful working capital release or deferred revenue timing.
- CapEx compression: CapEx fell 46.2% YoY to 175M (Compustat FY2024), reducing CapEx/Revenue from ~2.2% (FY2023 implied) to 1.2% — unusually low for a games developer. This single item accounts for roughly 40% of the FCF margin expansion.
- FCF conversion quality: FCF/NI compressed from 168% (FY2020) to 106% (FY2023) as earnings caught up with cash generation, then rebounded to 126% (FY2024, SimFin). Above-100% reading confirms no accruals concern — cash economics exceed accounting income in every year of the series.

2.2 Capital Efficiency

Year	ROIC	ROE	Asset Turnover	Op Margin	Source
FY2020	9.7%	13.1%	0.50	—	SimFin
FY2021	10.7%	16.8%	0.57	—	SimFin
FY2022	12.0%	19.7%	0.59	~20.4% (Compustat Q)	SimFin / Compustat
FY2023	15.1%	23.4%	0.57	26.8% (SimFin)	SimFin
FY2024	15.1%	20.8%	0.54	28.1% (SimFin / Compustat)	SimFin

FY2022 op margin estimated from Compustat quarterly sum: OI 2,847M ÷ Revenue 13,990M.

Key observations:

- ROIC expansion: +540bps from FY2020 to FY2024, driven entirely by margin expansion rather than asset turns (which declined). ROIC plateaued at 15.1% in FY2023–2024, suggesting the efficiency gains from the 2022–2023 cost discipline cycle are fully harvested.
- ROE divergence from ROIC: ROE peaked at 23.4% (FY2023) and declined to 20.8% (FY2024) while ROIC held flat. The gap reflects equity accumulation from retained cash. SimFin TTM equity stands at 19.8B; cash per SimFin TTM is 8.6B vs 19.3B per Compustat Q4 2024 — the Compustat figure likely includes short-term investments. Low LT debt (115M Compustat Q4 2024; 60M SimFin TTM) confirms ROE is quality-driven, not leverage-driven (DuPont leverage factor ~1.37×).
- Asset turnover erosion: AT declined from 0.59 peak (FY2022) to 0.54 (FY2024) as the balance sheet grew faster than revenue (total assets: 25.0B FY2022 Q4 → 26.9B FY2024 Q4, Compustat). With ~0% revenue growth over 2022–2024, further ROE expansion is constrained unless revenue re-accelerates or capital is returned.

2.3 Disclosure Quality vs. Financial Trajectory

Year	MD&A Spec (Item 7, composite-z)	Risk Factors (Item 1A, composite-z)	Op Margin	FCF Margin	Pattern
FY2020	−1.32	−0.52	~22% (C-Q est.)	29.3%	Below-avg spec; strong FCF
FY2021	−1.13	−0.55	~mid-20s	25.0%	Slight improvement; FCF dipped
FY2022	−1.26	−0.58	~20.4% (C-Q)	26.0%	Spec declined; margins weak
FY2023	−1.28	−0.60	26.8% (SimFin)	30.0%	Spec worsening; margins recovered
FY2024	−1.34	−0.60	28.1% (SimFin)	35.6%	Spec 5-yr low; margins 5-yr high

Source: 10-K text pipeline disclosure panel (Item 7 MD&A and Item 1A Risk Factors composite-z scores). Financial data: SimFin annual; Compustat quarterly estimates for FY2020–2022.

Key observations:

- Counter-cyclical disclosure pattern: MD&A specificity trended from −1.13 to −1.34 (increasingly generic) over 2021–2024, during the same period margins improved most sharply (+7.7pp op margin). This decouples the disclosure-quality signal from the financial-deterioration hypothesis — vagueness here is structural, not defensive.
- Business Description also declining: Item 1 composite-z moved from −0.90 (FY2022) to −1.08 (FY2024), indicating organization-wide communication style drift rather than item-specific hedging.
- Risk Factors plateaued: Item 1A has been flat at approximately −0.60 since FY2022, suggesting templated language that has not been updated to reflect intensified regulatory risk from China's internet sector oversight post-2021 — a potential disclosure gap given the material regulatory environment.
- Legal Proceedings (Item 3) anomaly: Above-average numeric density (composite-z +0.23–+0.44; numeric-z 1.2–1.9 in FY2019–2024) indicates quantified legal disclosures, consistent with mandatory numeric requirements for litigation, not voluntary specificity.
- Causal implication: The combination of rising FCF margins and declining MD&A narrative specificity (causal-z −0.14 to −0.07 in FY2022–2024) means the mechanism behind the improvement is not explained in filings. Investors cannot trace whether FCF expansion stems from sustainable mix-shift, deferred investment, working capital timing, or lower content amortization — all of which have different durability profiles.

Financial Reconciliation — NTES (NetEase Inc.)

Data as of FY2024. Sources: Compustat, SimFin, Morningstar screening data. RMB figures from management disclosures; Compustat/SimFin denominated in USD.

Merged Verdict Table

#	Category	Claim (Period)	Verdict	Key Evidence	Gap
1	cost_mgmt	Total opex +2.5% to RMB36.2B (FY2024)	Partially Supported	Compustat FY2024 OI +3.7% on revenue −1.1%; OI decomp: COGS and SG&A both favorable contributors consistent with opex decel narrative	RMB absolute and exact rate unverifiable from USD-denominated data; FY2023 base not confirmable
2	cost_mgmt	S&M +1.3% to RMB14.1B (FY2024)	Partially Supported	Compustat SG&A contributed +4.2% to OI change; combined line confirms near-flat growth trajectory	S&M/G&A not separable in Compustat/SimFin
3	cost_mgmt	G&A −7.1% to RMB4.55B (FY2024)	Partially Supported	CapEx −46.2% YoY signals overhead retrenchment; combined SG&A OI contribution implies G&A decline if S&M grew modestly	G&A not broken out; RMB4.55B unverifiable directly
4	cost_mgmt	R&D +6.3% to RMB17.5B (FY2024)	Supported	Compustat OI decomp: R&D contributed −13.7% to OI change; SimFin FY2024 OI +5.1% on near-flat revenue consistent with R&D as primary drag	RMB absolute unverifiable; ~48% opex share is internally plausible

#	Category	Claim (Period)	Verdict	Key Evidence	Gap
5	cost_mgmt	S&M +72.1% to RMB10.7B (FY2020)	Unverifiable	No FY2019–2020 data in any provided source	Historical claim predates all available data points; timing issue, not accuracy concern
6	cost_mgmt	Total opex 2.0x over FY2019–FY2024; decel to +2.5% in FY2024	Partially Supported	Morningstar 5Y margin trend confirms opex grew slower than revenue over period; FY2024 decel supported by Compustat	FY2019 base of RMB17.8B unverifiable
7	regulatory	VIE fund flows routed via overseas subsidiaries only	Unverifiable	Structural legal/contractual claim; no financial metric confirms fund-routing mechanics	Requires VIE contractual agreements, not financial statements
8	regulatory	PRC VAT: 6% services / 13% goods (cut from 16% April 2019)	Unverifiable	VAT policy claim; income statement ETR does not decompose indirect taxes by revenue type	Requires segment-level tax disclosures
9	regulatory	Youdao compliance risk under after-school tutoring regulations	Unverifiable	MD&A candor analysis: Youdao regulatory disclosure underdeveloped (score 4/10); no revenue share, compliance cost, or enforcement trajectory quantified	Flagged as material salience gap — potentially significant omission
10	regulatory	NASDAQ FPI exemptions (no majority independent board, no comp/governance committee)	Unverifiable	Governance structural claim; no governance metrics in financial data	Requires proxy statement or 20-F governance disclosures
11	regulatory	HK stamp duty 0.2% (0.1% per side) on share transfers	Supported	HK Stamp Duty Ordinance — legislatively fixed rate confirmed by dual-listing disclosure	None; rate is statutory
12	risk_factor	Investment Company Act classification risk	Supported	SimFin FY2024: cash 8.64B = 32% of total assets 27.26B; large non-operating asset base consistent with ICA risk	Investment securities schedule not broken out
13	risk_factor	Apple/Android platform dependency creates distribution risk	Supported	Games & Related Services = 78.8% revenue (Compustat FY2023, HHI=0.637); structural mobile gaming concentration confirmed	No per-platform iOS vs. Android revenue split

#	Category	Claim (Period)	Verdict	Key Evidence	Gap
14	risk_factor	New games cannibalizing existing titles	Partially Supported	SimFin FY2024 revenue +0.2%; Compustat −1.1% — portfolio stagnation consistent with cannibalization pressure	No per-title data to isolate cannibalization from secular slowdown
15	risk_factor	Cybersecurity threats from state-sponsored and sophisticated actors	Supported	Key Risks explicitly names state-sponsored and non-state actors; "illegal game servers and cheating" risk corroborates adversarial pressure	Unquantifiable by nature
16	competitive_position	Original content as primary competitive differentiator	Partially Supported	Morningstar op margin 23.6% (5Y avg) → 31.6% (1Y): +8pp consistent with differentiation or cost leverage	No direct attribution linking content pipeline to margin improvement vs. cost discipline
17	competitive_position	Revenue concentration in discretionary virtual item purchases	Supported	Games & Related Services = 78.8% revenue (Compustat FY2023, HHI=0.637); engagement-driven monetization model confirmed	Per-game ARPU or subscription vs. microtransaction split not disclosed
18	capital_allocation	Material cash requirements: leases, server/bandwidth, capex, royalties	Supported	SimFin FY2024 OCF 5.52B vs. FCF 5.21B implies CapEx ~CNY 2.2B; Morningstar CapEx = CNY 2.0B; infrastructure at scale confirmed	No itemized breakdown of lease vs. capex vs. royalty commitments
19	capital_allocation	DLOM via option-pricing method for illiquid equity investments	Unverifiable	SimFin: 59.5M LT debt vs. 27.26B assets implies large equity investment base; DLOM methodology unverifiable	No investment portfolio schedule in available data
20	operational	FY2023 CapEx ~RMB4.2B; NCI injection RMB2.9B; loan proceeds RMB1.7B	Partially Supported	Compustat-implied FY2023 CapEx ≈ CNY 2.3B (from −46.2% YoY decline to FY2024 level); ~80% magnitude gap vs. claimed CNY 4.2B	NCI and loan-proceeds not in summary financials; CapEx gap is the largest numerical discrepancy in the batch

#	Category	Claim (Period)	Verdict	Key Evidence	Gap
21	risk_factor	VIE shareholders retain significant influence; enforcement uncertainty	Supported	Key Risks confirms VIE shareholder influence risk and legal uncertainty explicitly; consistent with established PRC internet operator structural reality	No financial metric can quantify VIE enforcement risk in magnitude
22	regulatory	International expansion risks flagged as distinct category	Partially Supported	Risk categorization confirmed. However, Compustat segment data shows US revenue = 0.0% for FY2022 and FY2023	"Active push" framing overstates operational reality; no measurable international revenue contribution

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Cross-Claim Pattern Analysis

Cost Management: Directionally Consistent, Absolutes Unverifiable All six cost management claims (1–6) receive Partially Supported or Supported verdicts, with a uniform constraint: Compustat and SimFin are USD-denominated, making RMB absolutes and exact growth rates untestable. The structural narrative is internally coherent — R&D as primary opex driver (−13.7% OI contribution), S&M near-flat (+4.2% combined SG&A OI contribution), G&A declining — and is consistent with FY2024 operating income expanding +3.7% on revenue of −1.1% (Compustat). Management presents an accurate directional picture; the precision is unverifiable but not implausible. Claim 5 (S&M +72.1% in FY2020) is the sole fully unverifiable entry, and that is a data availability constraint, not a red flag.

Regulatory Claims: Structurally Accurate, Financially Untestable — One Framing Mismatch Of eight regulatory claims, four are Unverifiable (VIE mechanics, VAT rates, Youdao compliance, NASDAQ FPI governance) because they require legal documents or tax filings not present in summary financial data. This is expected. The one substantive concern is Claim 22: Compustat segment data shows US revenue at 0.0% for both FY2022 and FY2023, actively undercutting the framing of international expansion as an "ongoing push." Risk categorization exists; operational execution does not. This is the clearest framing mismatch in the full set of 22 claims.

Risk Disclosures: Comprehensive and Non-Optimistic All twelve risk factor and competitive position claims (12–17, 21) are Supported or Partially Supported. Management does not downplay platform concentration (Games = 78.8% revenue, HHI=0.637), virtual item dependency, cybersecurity escalation, or VIE structural fragility. The notable exception is Claim 9: the Youdao compliance disclosure scores 4/10 on candor, with the salience gap flagging absence of any revenue impact quantification or structural remediation timeline under PRC after-school tutoring policy. Given Youdao's segment-level regulatory exposure, this omission is material.

CapEx Magnitude Discrepancy (Claim 20) The most numerically significant gap is in Claim 20: management cites FY2023 CapEx of ~CNY 4.2B; Compustat-implied FY2023 CapEx is ~CNY 2.3B (derived from the −46.2% YoY decline to FY2024 levels). The ~80% magnitude gap has three candidate explanations — (a) management's definition includes capitalized leases or software development not captured in Compustat CapEx; (b) CNY/USD exchange rate assumptions diverge; (c) CNY 2.9B NCI injection is classified differently across sources. No available data resolves this. It warrants flagging as a definition-risk, not necessarily misstatement.

Systematic Bias Assessment   Zero claims are Contradicted. Where claims are Partially Supported, the limiting factor is consistently data granularity (currency, segment-level breakdown, portfolio schedules) rather than management overstatement. The overall pattern is a management team that is accurate on financial direction, comprehensive on risk disclosure, and selectively imprecise in regulatory segments — particularly Youdao compliance and international expansion framing.

Uncovered Material Financial Changes

The following significant data changes appear in the underlying sources but are not addressed by any of the 22 reconciled claims:

Metric	Change	Source	Note
Operating margin expansion	+8pp: 23.6% (5Y avg) → 31.6% (FY2024 1Y)	Morningstar	The largest structural shift in available data; no claim directly attributes or quantifies this step-up
Revenue near-stagnation	FY2024: −1.1% (Compustat) / +0.2% (SimFin)	Compustat, SimFin	Management claims address opex discipline but not the top-line pressure driving the need for it; the Compustat/SimFin divergence of 1.3pp is itself an unresolved data-quality gap
CapEx halving (FY2024)	−46.2% YoY to ~CNY 1.25B equivalent	Compustat	A near-halving of capital spend is a material structural shift; management discloses FY2023 CapEx but does not address the FY2024 step-down
Balance sheet leverage near-zero	LT debt 59.5M vs. total assets 27.26B (0.2% leverage ratio)	SimFin FY2024	Extremely low leverage combined with 8.64B cash (32% of assets) creates Investment Company Act exposure that management acknowledges categorically but does not quantify in balance-sheet terms
FCF conversion rate	FCF 5.21B vs. OCF 5.52B (94% conversion)	SimFin FY2024	High FCF conversion is a favorable metric consistent with CapEx decline; not claimed or attributed by management

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Reconciliation Statistics

Verdict	Count	Share
Supported	8	36%
Partially Supported	8	36%
Contradicted	0	0%
Unverifiable	6	27%
Total	22	100%

By category: - Cost management (6): 1 Supported, 4 Partially Supported, 1 Unverifiable - Regulatory (7): 1 Supported, 2 Partially Supported, 4 Unverifiable - Risk factors (6): 5 Supported, 1 Partially Supported - Competitive position (2): 1 Supported, 1 Partially Supported - Capital allocation (2): 1 Supported, 1 Unverifiable - Operational (1): 1 Partially Supported

Quality signal: The 0% contradiction rate across 22 claims indicates management is directionally accurate. The 27% Unverifiable share reflects structural data limitations (currency denomination, legal vs. financial data domains) rather than evasion. Primary quality concerns are: (1) the Claim 20 CapEx magnitude gap (~80%, definition-risk), (2) the Claim 22 framing mismatch (international expansion aspirational vs. operational — the only claim where available data actively pushes back on management's framing), and (3) the Claim 9 Youdao compliance omission (material segment-level exposure without quantified revenue impact or remediation timeline).

Disclosure Assessment — NTES (NetEase Inc)

Filing data: 2002–2024 | As of 2026-03-26

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1. Gap Map Axes — Percentile Rank & Trend

Axis	2024 pctl	Raw (2024)	2002–2015 trend	2019–2024 trend	Flag
business_model_clarity	0 (all items)	BD: −0.684; RF: −0.304; MD&A: −0.202	RF above median 2002–2015	↓↓ All items below median	[!] MATERIAL
revenue_durability	0 (RF); 1 (MD&A)	RF: −0.221; MD&A: +0.215	RF: persistently below median	RF: below; MD&A: recovering since 2022	[!] RF persistent gap
cost_structure_rigidity	0 (RF); 1 (MD&A)	RF: −0.076; MD&A: +0.073	RF: weak; MD&A: weak	MD&A improved since 2022; RF still below	[!] RF gap
regulatory_fragility	1 (MD&A + RF)	MD&A: +0.552; RF: +0.019	Strong throughout	Stable (MD&A); RF raw near zero	[v] Structural strength
capital_allocation_discipline	1 (MD&A)	MD&A: +0.343	Above median MD&A	Improving; 2022–2024 highest raw in history	[v] Improving

Axes below 30th percentile — year-over-year detail:

business_model_clarity — Item 1 (Business Description), raw score:

2008	2012	2016	2019	2020	2022	2023	2024
−0.126	−0.290	−0.291	−0.504	−0.650	−0.647	−0.658	−0.684

Steady deterioration since 2008. Risk Factor clarity also reversed: pctl=1 (2002–2015) → pctl=0 (2020–2024), raw −0.304 in 2024.

revenue_durability — Item 1A (Risk Factors), raw score:

2002	2006	2010	2015	2020	2022	2024
−0.159	−0.442	−0.342	−0.204	−0.263	−0.240	−0.221

Persistently below median in Risk Factors across the entire 22-year filing history. MD&A partially compensates (raw +0.215 in 2024) but does not substitute for RF-level risk disclosure.

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2. Specificity Trends

Item 7 (MD&A) — sharpest deterioration:

Year	composite_z	numeric_z	causal_z	hedge_z
2008	−0.31	−0.16	+2.45	+0.06
2012	+0.64	−0.16	+0.61	−0.46
2016	+0.51	−0.05	+0.33	−0.31
2018	−1.11	−0.59	+0.01	−0.58
2021	−1.13	−0.86	−0.10	−0.50
2024	−1.34	−1.04	−0.14	−0.27

MD&A composite fell ~2σ from 2012 (+0.64) to 2024 (−1.34). Primary driver: numeric density collapsed (numeric_z −0.16 → −1.04). Causal density, once a strength (2008: +2.45), is now near zero. Bottom decile vs. peers.

Item 1A (Risk Factors):

Year	composite_z	numeric_z	causal_z	hedge_z
2010	+1.02	+0.41	−0.73	−0.46
2014	+0.89	+0.30	−0.59	−0.56
2019	−0.68	−0.04	−0.67	−0.50
2022	−0.58	+0.19	−0.85	−0.99
2024	−0.60	+0.07	−1.01	−0.95

Peak 2010–2015 (composite +0.82 to +1.02), then sustained decline. Causal density (−1.01) and hedge density (−0.95) now among weakest in the cross-filer sample.

Item 7A (Market Risk) — relative strength with structural shift:

Year	composite_z	numeric_z	causal_z	hedge_z
2015	+1.52	−0.92	−0.67	−1.03
2020	+1.53	−0.88	−0.67	−1.00
2021	+0.55	+1.08	+0.60	+1.34
2024	+0.38	+1.04	+0.69	+1.23

Step-down in 2021 (from ~1.5 to 0.55), but composition improved: numeric, causal, and hedge density all turned positive. Now above median on all sub-dimensions despite lower composite.

Item 3 (Legal Proceedings) — improving: composite_z rose from −1.04 (2003) to +0.23 (2024); numeric_z +1.24 in 2024. Consistent multi-year improvement.

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3. Topic Distribution — Peer Weighting

Full topic decomposition unavailable (all chunks classify as “other”). Structural inference from gap map axes:

Topic area	Weighting vs. peers	Evidence
Regulatory risk	Over-weight	regulatory_fragility MD&A: raw 0.25–0.64 across all years; pctl=1 in every MD&A year on record
Market risk / quantitative	Above median	Item 7A numeric_z +1.04, causal_z +0.69 in 2024
Revenue model mechanics	Under-weight (RF)	revenue_durability RF: pctl=0 all 22 years; raw −0.16 to −0.44
Cost structure dynamics	Under-weight (RF)	cost_structure_rigidity RF: pctl=0 in 15 of last 18 years

Topic area	Weighting vs. peers	Evidence
Business model explanation	Under-weight (BD + RF)	BD business_model_clarity raw worsened to −0.684; RF pctl flipped 2020
Causal financial narrative	Under-weight (MD&A)	causal_z: +2.45 (2008) → −0.14 (2024)

No individual topic z-score exceeded ±1.5 threshold from available data; sector-specific breakdown not available in this data extract.

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4. Peer Comparison — 2024 Disclosure Rank

Item	2024 composite_z	Implied percentile	vs. Peers
Item 7 (MD&A)	−1.34	~8th	Bottom decile
Item 1 (Business Description)	−1.08	~14th	Bottom quintile
Item 1A (Risk Factors)	−0.60	~27th	Below 30th pctl
Item 3 (Legal Proceedings)	+0.23	~59th	Near median
Item 7A (Market Risk)	+0.38	~65th	Above median

Overall: bottom quartile. MD&A deterioration (above median 2012–2017 → bottom decile 2018–2024) is an outlier pattern; most peers do not show a 2σ decline in a single item over six years. Market Risk and Legal Proceedings are isolated strengths.

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5. Missing Disclosures — Materiality-Flagged Gaps

Gap	Item(s)	Duration	Materiality	Why it matters
Revenue sustainability drivers	RF (Item 1A)	2002–2024 (every year)	≥5% revenue	Gaming MAU/paying-user churn and regulatory content quotas are primary revenue risks; RF lacks causal framing for what sustains revenue (causal_z: −1.01 in 2024)
Cost structure sensitivity	RF (Item 1A)	2004–2024	≥10% OI	R&D and game development are high-fixed-cost; margin sensitivity to volume absent from RF (cost_structure_rigidity RF pctl=0, raw −0.076 in 2024)
Segment-level business model mechanics	BD (Item 1)	2008–2024 (worsening)	≥5% revenue	Gaming, Cloud Music, Yanxuan, and education have distinct economics; Item 1 provides undifferentiated description (raw −0.684 in 2024, worst in 22-year history)
Causal MD&A narrative	MD&A (Item 7)	2018–2024	≥10% OI	MD&A no longer explains why margins changed; causal_z collapsed from +2.45 (2008) to −0.14 (2024); numeric density now bottom decile (numeric_z −1.04)
Business model mechanics in RF	RF (Item 1A)	2020–2024	≥5% revenue	RF business_model_clarity flipped from pctl=1 (2002–2015) to pctl=0 (2020–2024); raw −0.304 in 2024 — absent during period of significant China tech regulatory change

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Sources: Filing gap map axes (Item 1, 1A, 3, 7, 7A), specificity z-scores, and peer-relative percentile ranks — 2002–2024. No investment recommendations.

Risk & Contingency — NTES (NetEase Inc.)

As of 2026-03-26 | Footnote coverage: 2004–2024

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1. Debt Covenants & Headroom

No active covenant constraints appear in footnote data for 2017–2024. All historically disclosed instruments have matured or been retired:

Instrument	Rate	Maturity	Last Filing Year
Zero coupon convertible subordinated notes	0%	July 15, 2023	2008
Fixed-rate notes (multiple tranches)	1.29% / 1.28% / 1.15% / 0.98%	Unspecified	2016
Fixed-rate notes	1.25%	Unspecified	2014
Enterprise notes	0.10%	Feb 10, 2010	2008

Covenant headroom: Not quantifiable. The 2024 annual report footnote extract discloses no active debt covenant terms. The convertible notes that appeared in 2004–2008 filings (due July 15, 2023) have matured. Current balance sheet carries primarily operating lease obligations (see §5).

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2. Near-Term Maturity Schedule (2025–2027)

Period	Instrument	Amount	Source
2025–2027	Fixed-income debt maturities	None identified	2024 footnotes
2025–2027	Operating lease payments	~RMB 584M total liability	Note 10, 2024

NetEase holds a large investment securities portfolio (flagged as Investment Company Act trigger risk) but disclosed debt obligations appear minimal based on available 2024 footnote extraction. No near-term refinancing risk is identifiable.

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3. Contingent Liabilities

Litigation (Item 3, 2024 filing):

Matter	Status	Quantified Exposure
Krafton v. NetEase (copyright/trade dress, 2018)	Settled March 2019	Immaterial
Krafton v. NetEase (breach of settlement, 2019)	Bench trial May 2023 → US6M liquidated damages awarded; parties subsequently settled to avoid further proceedings	Management: "no material impact on consolidated financial statements"
Ongoing IP / copyright / defamation claims	Ordinary course; no specific reserves disclosed	Not quantified

Historical class action (2004–2006 filings): Referenced as "now-settled class action" with RMB 16,553K settlement amount. Fully resolved; included for completeness only.

Tax contingencies: NOL carryforwards visible in 2006–2009 filings (last: RMB 10.7M in 2009) — immaterial and stale. No material tax contingencies disclosed in 2024 footnote extract.

Guarantees / environmental: None disclosed in available data.

Current litigation posture: Management's 2024 representation is that no known material legal proceeding, investigation, or claim exists beyond what is disclosed above.

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4. Year-over-Year Footnote Deltas

Revenue recognition — dominant and rising (2022–2024):

Year	Topic Share	Z-Score	Signal
2022	18.1%	+1.71	Elevated
2023	18.9%	+1.91	Rising
2024	19.1%	+2.01	Highest in dataset

Revenue recognition has reached a z-score of +2.01 in 2024, the highest in the extracted dataset. This reflects increasing footnote complexity around deferred revenue accounting for in-game virtual items (recognition spread over estimated player consumption periods). A rising z-score indicates expanding disclosure density — consistent with regulator scrutiny of game revenue deferral practices in China.

Deferred revenue trajectory (RMB, selected years from footnotes):

Year	Balance (approx.)	Direction
2017	~RMB 2.68B	—
2018	~RMB 2.88B	+7%
2020	~RMB 1.76B	Decline
2021	~RMB 10.4B (Note 16)	Large jump — likely reflects Youdao/cloud tuition consolidation

Footnote delta direction for 2005–2017 is unavailable in pipeline output (directional signals extracted as "?" — not calculable).

Operating lease footprint — contracting materially (RMB '000):

Year	Lease Expense	Short-Term Liability	Long-Term Liability
2022	409,196	334,399	672,640
2023	344,606	259,493	555,829
2024	249,169	171,609	412,600

Lease liabilities declined 28% YoY and 39% from 2022 peak. Lease expense fell 39% over the same two-year period. NetEase is consolidating its physical footprint — no concentration in any single disclosed facility.

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5. Item 1A — Material Risk Factors

1. VIE Structure — Structural Enforceability Risk (Continuing, Named) NetEase's China internet operations are held entirely through VIE contractual arrangements. The holding company cannot make direct capital contributions to VIEs. PRC courts have not definitively ruled on enforceability of VIE control arrangements. If arrangements break down — through shareholder action, regulatory intervention, or court invalidation — NetEase would lose operational control over its China gaming, music streaming, and education assets, which constitute the preponderance of group revenues. Risk is not hedgeable within the current corporate structure.

2. Investment Company Act Classification (Continuing, Named) NetEase holds a large portfolio of investment securities relative to operating assets. If classified as an Investment Company under the U.S. Investment Company Act of 1940, it would face severe restrictions on leverage, affiliated transactions, and capital structure flexibility. This is a binary regulatory trigger — no disclosed compliance buffer or safe harbor is described in the filing.

3. Mobile Platform Dependency (Apple / Android) (Continuing, Named) Apple App Store and Google Play govern promotion, distribution, and payment mechanics for all NetEase mobile games. Any T&C violation — including alternative payment routing, content standards, or data handling — could trigger game removal. Mobile is NetEase's largest revenue segment. Platform removal of a major title (e.g., Fantasy Westward Journey, Naraka: Bladepoint Mobile) would represent an acute, rapid revenue event with no disclosed alternative distribution path.

4. Cybersecurity — State-Sponsored and Sophisticated Threat Actors (Emerging, Named) State-sponsored organizations, hacktivists, and opportunistic actors are named as escalating threats. Attackers are explicitly described as using techniques that "circumvent security controls and evade detection." An undetected breach could compromise player credentials, game IP, or payment data — triggering PIPL obligations in China, potential U.S. SEC disclosure requirements, and reputational damage that accelerates player churn.

5. Player Cannibalization — Margin Compression Risk (Continuing, Directional) New game launches risk migrating players from established high-margin titles. New titles carry elevated user acquisition costs and monetization ramp-up periods, meaning they operate at lower near-term margins. If net migration concentrates in lower-margin new titles, blended operating margin contracts even with flat aggregate player counts. No revenue concentration by title is disclosed.

6. Youdao Regulatory Compliance (Continuing) Youdao faces ongoing obligations under PRC's 2021 "double reduction" after-school tutoring regulations. Enforcement trajectory remains uncertain; product restructuring has occurred but regulatory reinterpretation could require further modification or revenue curtailment in the education segment.

7. Corporate Governance Exemptions NetEase claims home country exemptions from Nasdaq governance requirements: no majority independent board, no compensation committee, no governance committee. These exemptions structurally reduce minority shareholder oversight quality and increase principal-agent risk.

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6. Item 1B — SEC Staff Comments

No Item 1B data identified in supplementary extract. No unresolved SEC staff review comments noted.

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7. Legal Proceedings (Item 3)

The sole quantified legal matter in the 2024 filing is the Krafton litigation. After a bench trial found breach of the 2019 settlement agreement, the court awarded US6M in liquidated damages (May 2023) but denied injunctive relief. Parties subsequently settled to avoid further litigation. Management confirmed the settlement amount has no material impact on consolidated financial statements.

All other disclosed proceedings (IP infringement, defamation, communications-related claims) are characterized as ordinary course with no individual material exposure. Management represents no other known material legal proceedings as of the 2024 filing date.

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8. Off-Balance-Sheet Exposures

VIE Consolidation Risk (primary structural exposure): NetEase consolidates its VIEs as primary economic beneficiary under ASC 810. VIE entities hold all PRC internet licenses, telecom value-added service licenses, and game operation approvals. These licenses cannot be legally transferred offshore. Loss of VIE control — whether through regulatory revocation, VIE shareholder dispute, or PRC foreign investment rule change — would force deconsolidation and collapse reported revenue to near-zero without transitional remediation.

Operating Leases (Note 10, 2024):

Metric	2024	2023	Change
Weighted avg. remaining term	2.87 years	2.92 years	Stable

Metric	2024	2023	Change
Short-term lease liability (RMB ’000)	171,609	259,493	−34%
Long-term lease liability (RMB ’000)	412,600	555,829	−26%
Total lease obligation	~RMB 584M	~RMB 815M	−28%
Operating lease cost (RMB ’000)	249,169	344,606	−28%

Contracting footprint reduces off-balance-sheet-equivalent obligations. No single lease concentration disclosed. Remaining average term of 2.87 years implies full roll-off of current commitments by ~2029 absent renewals.

Investment securities portfolio: NetEase’s investment securities holdings are large enough to trigger potential Investment Company Act classification (see §5, Risk Factor 2). Mark-to-market exposure on equity / fund positions flows through OCI or income depending on classification. Exact balance not in footnote extract.

Purchase commitments: Not quantified in available 2024 footnote data.

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9. Short Interest Observation

Metric	Value (as of 2026-03-26)
Short ratio	2.4 days to cover
Shares short	2,483,751
MoM change	+8.9%
Institutional ownership	9.8%
Insider ownership	1.4%

Absolute short interest is low (2.4 days cover); the +8.9% MoM increase warrants monitoring but is not material at current scale. Institutional ownership of 9.8% is notably low for a company of NetEase’s market capitalization — likely reflecting ADR friction, China political risk discount, or benchmark index exclusion effects rather than a fundamental short thesis.

Part 1: Debt, Leverage & Maturity — NTES (NetEase Inc)

Data sources: SimFin annual balance sheet (FY2022–FY2024 TTM); SimFin footnote facts (debt_covenants, leases). All figures USD unless noted.

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1. Debt Composition

	FY2022	FY2023	FY2024 / TTM
Short-Term Debt	3.39B	2.71B	1.67B
Long-Term Debt	0.51B	0.06B	0.06B
Total Debt	3.90B	2.77B	1.73B
ST % of Total Debt	86.8%	97.9%	96.5%
LT % of Total Debt	13.2%	2.1%	3.5%
Cash & ST Investments	4.57B	3.59B	8.64B
Net Debt / (Net Cash)	(0.67B)	(0.82B)	(6.91B)

Parentheses denote net cash position. Source: SimFin annual balance sheet.

Materiality screen (5% of total assets = 1.36B at FY2024): - Short-term debt 1.67B (6.1% of assets) — exceeds threshold; only instrument requiring disclosure - Long-term debt 60M (0.2% of assets) — immaterial; consolidated into Other below

Composition notes: - Short-term debt dominates at 96.5% of total as of FY2024, consistent with Chinese technology companies that rely primarily on revolving CNY bank facilities with annual rollover - LT debt collapsed from 514M (FY2022) to 59M (FY2023) — consistent with the retirement of zero-coupon convertible subordinated notes that carried a 2023 maturity date (disclosed in SimFin footnote facts, filings 2004–2009) - Historical bank loan rates of 0.96%–1.29% (SimFin footnote facts, 2013–2016) suggest the predominant structure is fixed-rate, low-coupon CNY bank facilities. No current variable-rate instruments identifiable from available data - Secured vs. unsecured status is not determinable from available data. Offshore USD notes are typically unsecured senior obligations; onshore CNY bank loans may carry collateral requirements

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2. Leverage Metrics — Three-Year Trend

Metric	FY2022	FY2023	FY2024 (TTM)	YoY Δ FY22→23	YoY Δ FY23→24
Total Debt / Equity	0.26x	0.16x	0.09x	−38.5%	−43.8%
Total Debt / Assets	16.1%	10.7%	6.3%	−33.5%	−41.1%
Net Debt / (Cash)	(0.67B)	(0.82B)	(6.91B)	—	—
Interest Coverage (OI / IntExp)	9.1x	6.7x	6.0x	−26.4% [!]	−10.4%
Current Ratio	2.32x	2.65x	3.09x	+14.2%	+16.6%
Equity / Assets	63.0%	68.9%	72.7%	+5.9pp	+3.8pp

Source: SimFin annual balance sheet. Total Debt = LT Debt + ST Debt. Debt/Assets = Total Debt ÷ Total Assets.

[!] FLAG — Interest Coverage deteriorated >20% (FY2022→FY2023): Declined from 9.1x to 6.7x, a 26.4% deterioration exceeding the 20% threshold. The subsequent FY2023→FY2024 decline (−10.4%) is below threshold but continues the same directional trend. At 6.0x TTM, coverage remains adequate; however, the three-year downtrend (9.1x → 6.7x → 6.0x) warrants monitoring against any covenant floor if one exists.

Context: All other leverage metrics improved substantially. Debt/Equity declined from 0.26x to 0.09x over three years, and net cash expanded dramatically to 6.91B (FY2022: 0.67B net cash), driven by cash accumulation (8.64B vs 4.57B) combined with debt reduction. Net cash at FY2024 represents 1.25x TTM operating cash flow (5.52B, SimFin TTM). Net Debt/EBITDA is not calculable as EBITDA is not directly provided; however, the deeply net-cash position renders this ratio negative (i.e., no net leverage) across all three years.

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3. Covenant Headroom

Period	Instrument	Key Term	Source
2004–2023 (retired)	Zero-coupon convertible subordinated notes	Maturity: 2023	SimFin footnote facts, filings 2004–2009
2013–2016	CNY bank loans (historical)	Rate: 0.96%–1.29%	SimFin footnote facts
FY2024 (active)	Operating leases	Remaining term: ~2.92 yrs; annual expense ~409M	SimFin footnote facts, 2024 filing

Active financial covenant assessment: - No active financial maintenance covenants (minimum interest coverage, maximum leverage) are identifiable from available footnote data for currently outstanding instruments - The convertible subordinated note structure (2004–2023 vintage) matured and was retired, consistent with the 455M LT debt reduction in FY2023 - With Total Debt/Equity at 0.09x and net cash of 6.91B, NTES has substantial buffer against any standard leverage covenant. A hypothetical 3.0x Net Debt/EBITDA threshold (common in investment-grade credit agreements) would not be at risk given the net cash position - Operating lease expense declined from 462M (FY2023) to 409M (FY2024), with weighted average remaining term of ~2.92 years (SimFin footnote facts, 2023–2024)

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4. Maturity Profile

Maturity Bucket	Amount	% of Total Debt	Notes
< 1 year	1.67B	96.5%	Short-term debt; SimFin FY2024 balance sheet
1–5 years	0.06B	3.5%	Long-term debt; exact year unspecified in available data
> 5 years	—	—	No evidence of long-dated obligations
Operating leases (off-b/s)	~1.19B total	—	~409M/yr × ~2.92 yrs remaining; SimFin footnote facts
Total Debt	1.73B	100%	

Source: SimFin annual balance sheet FY2024; SimFin footnote facts for lease estimate.

Refinancing risk assessment — Low: - The 1.67B in short-term debt due within 12 months is covered 5.2x by cash on hand (8.64B). NTES could retire all current obligations from existing liquidity without accessing capital markets - The structural concentration in short-term debt (96.5%) is characteristic of Chinese technology companies using annually renewed bank facilities, representing rollover risk rather than event-driven maturity risk - No bullet maturities or term-loan amortization schedules are identifiable in the available data beyond the annual ST rollover - TTM FCF of 5.21B (SimFin TTM) covers total debt (1.73B) in approximately 4 months, further limiting refinancing pressure - Operating lease obligations (~1.19B total remaining) are well within FCF generation capacity

Part 2: Liquidity & Veto Context

Sources: SimFin annual balance sheet (FY2022–FY2024, USD); SimFin TTM as of FY2024 Q4; Compustat quarterly P&L aggregates (USD millions); Item 7A disclosures (2024 20-F filing)

2.1 Working Capital Trends

Table 1 — Balance Sheet Liquidity (SimFin Annual, USD billions)

Metric	FY2022	FY2023	FY2024	YoY Δ FY23→24
Current Assets	18.51B	19.81B	21.33B	+7.7%
Current Liabilities	7.99B	7.47B	6.91B	-7.5%
Cash & ST Investments	4.57B	3.59B	8.64B	+140.7% ☐
Short-Term Debt	3.39B	2.71B	1.67B	-38.4%
Current Ratio	2.32x	2.65x	3.09x	+16.6%
Quick Ratio	2.32x	2.65x	3.08x	+16.2%
Interest Coverage	9.1x	6.7x	6.0x	-10.4% (FY23→24); -34.1% cumulative ☐

☐ Cash +140.7% YoY: FY2024 cash accumulation (8.64B from 3.59B) reflects 5.21B TTM FCF less 1.55B dividends. The FY2023 trough was driven by accelerated short-term debt reduction — ST debt fell 680M YoY in FY2023 — masking underlying cash generation capacity.

☐ Interest coverage -34.1% cumulative (FY2022→FY2024): Exceeds the 20% materiality flag threshold. Decline (9.1x → 6.0x) reflects slower operating income growth relative to effective interest burden. Long-term debt fell sharply from 514M to 60M over the same period, complicating ratio interpretation (lower debt, but coverage still declined). Absolute level (6.0x) remains 4.0x above the 2.0x veto floor; no breach risk at current trajectory.

2.2 Cash Conversion Cycle (SimFin TTM + Compustat Quarterly)

TTM Revenue (Compustat quarterly aggregates, USD millions): 14,426M | TTM COGS (Revenue – Gross Profit): 5,079M

CCC Component	Formula Inputs	Days
Days Sales Outstanding (DSO)	AR 789M / daily revenue 39.5M	~20
Days Inventory Outstanding (DIO)	Inventory 79M / daily COGS 13.9M	~6
Days Payable Outstanding (DPO)	AP 3,110M / daily COGS 13.9M	~224
Cash Conversion Cycle	DSO + DIO – DPO	–198

AR, Inventory, AP from SimFin TTM (FY2024 Q4, USD); Revenue/COGS aggregated from Compustat quarterly (USD millions).

The –198-day CCC is structurally characteristic of digital gaming: revenue collected at point-of-sale or via prepaid virtual currency with no receivables lag, negligible physical inventory, and a 3.11B accounts payable balance that incorporates large deferred revenue (advance player purchases, seasonal bundles) and channel partner payables. NTES is float-funded — working capital generates cash rather than consuming it.

2.3 Cash Position

Table 2 — Cash Adequacy (SimFin TTM FY2024 Q4, USD)

Metric	Value	Notes
Cash & ST Investments	8.64B	SimFin FY2024 annual
Long-Term Debt	0.06B	SimFin FY2024
Short-Term Debt	1.67B	SimFin FY2024
Total Debt	1.73B	
Net Cash	+6.91B	Cash minus total debt
Cash / Total Debt	499% (5.0x)	
FCF (TTM)	5.21B	SimFin TTM
OCF (TTM)	5.52B	SimFin TTM
Dividends Paid (TTM)	1.55B	SimFin TTM
FCF post-dividend	3.66B	Annual residual accumulation
Monthly operating costs (est.)	~864M	(Revenue 14,426M – OI 4,054M) / 12
Zero-revenue cash runway	~10 months	8.64B / 864M

Zero-revenue runway is a theoretical stress scenario; NTES generates 5.21B annual FCF under normal operations. Monthly operating cost is estimated from Compustat quarterly aggregates (USD millions).

Net cash (6.91B) represents 9.8% of current market cap (70.71B, yfinance live). Full debt retirement is achievable in approximately 4 months of FCF (1.73B / 5.21B = 0.33 years).

2.4 Veto Flag Status

No veto flags triggered. Assessed against conditional veto thresholds.

Table 3 — Veto Metric Assessment (SimFin FY2024 / TTM)

Metric	Computed Value	Flag Threshold	Status	Margin
Net Debt / FCF	–1.33x (net cash)	> 6.0x	[v] PASS	Not applicable — net cash
Debt / Tangible Assets	6.3%	> 70%	[v] PASS	63.7 ppts below threshold
Interest Coverage	6.0x	< 2.0x	[v] PASS	4.0x above floor
ST Debt Ratio	96.5%	> 40%	☐ OVERRIDE ACTIVE	Cash / ST Debt = 5.17x ≥ 1.0x
Current Ratio	3.09x	< 0.80x	[v] PASS	2.29x above floor
Self-Funding (OCF)	+5.52B	< 0	[v] PASS	Strongly positive
FCF / Net Income	128%	< 50%	[v] PASS	78 ppts above floor

Net Debt/FCF: Net Debt = 1.73B – 8.64B = –6.91B; ratio = –6.91B / 5.21B = –1.33x. FCF/NI: TTM NI from Compustat quarterly aggregates = 1,057M + 923M + 1,003M + 1,085M = 4,068M; 5,210M / 4,068M = 128%.

ST Debt Ratio override detail: Short-term debt (1.67B) is 96.5% of total debt (1.73B), nominally breaching the 40% primary threshold. The conditional override is fully satisfied: Cash / ST Debt = 8.64B / 1.67B = 5.17x (override requires ≥ 1.0x). No veto triggered. The concentrated near-term maturity profile is not a liquidity risk given 8.64B cash — NTES holds 5.17 of liquid assets per 1.00 of short-term debt.

2.5 Market Risk Context (Item 7A, 2024 20-F)

Foreign Currency Exposure (Primary Risk)

NTES's revenue, COGS, SG&A, and taxes are predominantly RMB-denominated, while the ADR structure and USD cash reserves create a USD/CNY translation layer at the holding company.

- No hedges in place: NTES has not entered any FX hedging transactions as of the 2024 filing (no forward contracts, options, or swaps). Management acknowledges the exposure without committing to future hedging programs, noting that even if entered, "the effectiveness of these hedges may be limited."
- FX P&L swing: Net FX gain of RMB 255.4M (~35M USD) in FY2024 vs. net FX loss of RMB 133.0M in FY2023. Total swing approximately RMB 388M (~53M). At roughly 1.3% of TTM operating income (~4.05B USD equivalent), the effect is modest in magnitude but directionally volatile year-to-year.
- RMB policy risk: The RMB is a PRC-managed float subject to government intervention. Historical precedent includes >20% USD/CNY appreciation (July 2005–July 2008) followed by a multi-year peg. Policy-driven rate moves are structurally unpredictable; the filing explicitly acknowledges that "the PRC government may adopt a more flexible RMB exchange rate policy" with uncertain direction.
- Balance sheet FX exposure: The 8.64B cash position is held in both RMB and USD instruments. The exact currency split is not disclosed in the provided data. A 10% RMB depreciation would reduce the USD equivalent of CNY-denominated cash proportionally.
- Cross-currency data note (yfinance): Market cap and quote price are in USD; enterprise value and free cash flow are in CNY. FCF yield calculations require FX normalization and are suppressed in the provided price data to avoid currency mismatch errors.

Interest Rate Risk

Minimal. With only 1.73B total debt and 6.91B net cash, NTES has negligible interest rate sensitivity. The 5.52B OCF provides full insulation against any plausible rate-driven increase in financing costs. No floating-rate debt disclosures or interest rate derivative positions are referenced in the available Item 7A excerpts.

Commodity and Other Derivatives

No commodity hedges or other derivative positions are disclosed in the available Item 7A data.

End of Part 2 — Liquidity & Veto Context

Quantitative Risk Profile — NTES (NetEase Inc.)

Data as of FY2024; model: LightGBM trained on Compustat 2000–2019, applied via SimFin features (as of 2026-03-26)

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1. Track Assignment & Score History

Fiscal Year	Track	Tier	Compounder Score
FY2020	track1_compounder	PASS_CLEAN	0.407
FY2021	track1_compounder	PASS_CLEAN	0.335 [!]
FY2022	reject	REJECT	—

Fiscal Year	Track	Tier	Compounder Score
FY2023	reject	REJECT	—
FY2024	reject	REJECT	—

Track eligibility (FY2024): - Track 1 (Compounders): Requires `veto_hard_pass` AND `durability_bin ∈ {D1, D2}` — not met - Track 2 (Deep Value): Requires `veto_hard_pass` AND `survivability_pass` AND NOT Track 1 — not met - Result: REJECT — fails both track eligibility criteria as of FY2022 onward

The three-year consecutive REJECT (FY2022–FY2024) marks a structural break from FY2020–FY2021 Track 1 status. The compounder score had already fallen below the 0.4 attention threshold in FY2021 (0.335 [!]), presaging the FY2022 transition. Given the FY2024 feature vector shows strong fundamentals on multiple dimensions (see §4), the REJECT classification is more likely driven by durability bin placement (D3 or below) or a veto flag in the screening pipeline than by fundamental financial deterioration.

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2. Compounder Signal

The last valid compounder score is FY2021 at 0.335 — below the 0.4 attention threshold. No score is generated for FY2022–FY2024 (REJECT tier).

Top compounder model features (gain importance) vs. FY2024 actuals:

Feature	Importance	FY2024 Value	Signal
roic	1,250.4	0.5000	Ceiling-clipped [!] — true ROIC likely higher
market_cap	293.7	56,523M	Large-cap; compresses expected excess return spread
roa	255.0	0.1515	Strong (15.2%)
sale	185.1	14,426M	Scale consistent with large-cap peers
book_to_market	171.2	0.3361	Growth-oriented valuation; low margin of safety
gross_margin	154.8	0.6290	High (63%)
at	118.8	26,851M	Asset-light vs. revenue base
ev	113.4	39,019M	EV below market cap — implies net cash position

On observable fundamentals, NTES's FY2024 inputs are consistent with a high-quality compounder (clipped ROIC, 63% gross margin, 36.5% FCF margin). The REJECT classification does not reflect fundamental deterioration visible in these features. The model's top signal driver (roic, gain=1,250) is truncated at 0.50 for this firm, creating systematic underestimation of quality. The compounder signal from raw features is stronger than the track assignment implies.

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3. Distress Assessment

No distress score is reported. Per ML domain boundary rules, the distress model is only valid within its training domain (`fcf_margin < 0 OR roic < 0`). NTES does not meet that criterion — distress scoring should not be applied.

Distress model top features vs. FY2024 actuals:

Feature	Importance	FY2024 Value	Distress Signal
fcf_margin	9,087.2	0.3647	[v] Low risk (strong FCF conversion)
debt_to_equity	2,016.2	0.0061	[v] Low risk (near-zero leverage)

Feature	Importance	FY2024 Value	Distress Signal
op_margin	1,997.5	0.2810	[v] Low risk (28% operating margin)
fcf_yield	1,713.4	0.0931	[v] Low risk (9.3% FCF yield)
roic	1,168.0	0.5000	[v] Low risk (ceiling-clipped)
gross_margin	1,025.2	0.6290	[v] Low risk
roe	936.8	0.2141	[v] Low risk
ceq	826.8	19,000M	[v] Low risk (substantial equity base)

Every distress-relevant feature for FY2024 points away from financial stress. The REJECT tier cannot be attributed to distress risk on available data.

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4. Anomalous Features

Features likely in the top/bottom 5% of the model's training distribution:

Feature	FY2024 Value	Anomaly	Impact on Model
roic	0.5000	Ceiling-clipped — true value unknown	Underweights quality; most important compounder feature
debt_to_equity	0.0061	Bottom ~1% — near-zero leverage	Distress model underweights safety; unusual for training sample
fcf_margin	0.3647	Likely top decile	Strongest distress-suppressing feature — correctly signals safety
book_to_market	0.3361	Low — growth valuation	Training sample may be underrepresented in dual-listed Chinese ADRs at this ratio
ev vs. market_cap	39,019M vs. 56,523M	EV < market cap implies ~17.5B net cash	EV-based features may not fully capture balance sheet quality

The ROIC ceiling artifact is documented (project memory: "ROIC clips at ±0.50 for many companies; domain shift from Compustat training"). Given roic is the compounder model's highest-gain feature (1,250.4), truncation here has a disproportionate effect on score reliability for NTES specifically.

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5. Management Disclosure Quality

Candor score: 4/10 (FY2024 MD&A) | Management quality grade: C

Item 7 specificity_z = −1.34; numeric_z = −1.04 — below peers on both dimensions.

Salience gaps (material topics underweight in disclosure):

Topic	Gap	Materiality
Segment monetization	segment_granularity weight=0.306 but numeric_z=−1.04 — discussed without per-game/per-segment quantification peers provide	Revenue attribution risk
International expansion	Flagged as growth vector (claim 22) with zero revenue split, margin profile, or named title pipeline disclosed	Material omission for stated growth vector
Investment Company Act risk	Unusual structural exposure (claim 12) disclosed without quantifying the investment securities ratio that triggered it	Operational constraint with no numerical anchor

Topic	Gap	Materiality
Youdao regulatory trajectory	After-school tutoring crackdown cited (claim 9) with no compliance update, revenue impact, or remediation detail despite regulatory specificity_z at 1st percentile	Forward-looking risk unquantified

Positive: Claims 1–6 provide five-year opex growth trajectories with precise RMB figures — quantitative discipline in cost disclosure.

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6. Narrative Flags

Type	Location	Description
[omission]	Item 1 (Business)	Business model clarity at pctl=0 across all observed years. entropy_z=1.95 (high topic diversity) with specificity_z=−1.08 — broad coverage without depth; bottom of peer distribution for revenue mechanism explanation
[hedging]	Item 7A (Market Risk)	hedge_z=1.23, significantly above peers. numeric_z=1.04 confirms data present, but extensive qualifying language dilutes the signal value of disclosed numbers
[boilerplate]	Claims 10, 11, 13	NASDAQ governance exemptions, HK stamp duty, Apple/Android T&C risk — structural boilerplate repeated verbatim across Chinese ADR peer filings; inflates regulatory topic weight with zero NetEase-specific content
[non_recurring_framing]	Claim 3	G&A −7.1% YoY characterized as one-time without driver identification — ambiguity about cost base reversion is material for margin modeling
[inconsistency]	Claims 4 vs. 17	R&D = 48% of opex (+6.3% YoY, framed as competitive investment) in tension with revenue concentration in discretionary in-game microtransactions — filing does not reconcile R&D intensity with engagement-driven monetization model

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7. Reconciliation Alignment

No reconciliation data available. Quantitative claim-to-financial-reality alignment cannot be assessed. The absence of reconciliation data is particularly notable given the 4/10 candor score and the unresolved tension between R&D investment framing (claim 4) and microtransaction revenue concentration (claim 17). Qualitative reconciliation would require per-segment financial data the filing does not disclose.

Model caveats: LightGBM trained on Compustat 2000–2019; applied via SimFin features (domain shift may inflate distress signals for non-US issuers). ROIC ceiling-clipped at 0.50. Relative rankings within the screening universe are valid; absolute score levels carry additional uncertainty for Chinese ADRs. All scores reflect data available as of FY2024 reporting.

Reconciliation Alignment

RECONCILIATION ALIGNMENT: Claims analyzed: 36 Supported: 17 (47%), Partially: 17 (47%), Not Supported: 0 (0%), Contradicted: 2 (6%) Overall alignment: 94% (supported + partially) Key discrepancies: - 20 | operational | FY2023 CapEx ~RMB4.2B; NCI injection RMB2.9B; loan proceeds RMB1.7B | Partially Supported | Compustat-implied FY2023 CapEx ≈ CNY 2.3B (from −46.2% YoY decline to FY2024 level); - #### CapEx Magnitude Discrepancy (Claim 20) - Zero claims are Contradicted. Where claims are Partially Supported, the limiting factor is consistently data granularity (currency, segment-level breakdown, portfolio schedules) rather than management - Contradicted** | 0 | 0% - Quality signal:** The 0% contradiction rate across 22 claims indicates management is directionally accurate. The 27% Unverifiable share reflects structural data limitations (currency denomination, leg

Valuation Analysis — NTES (NetEase Inc)

Data as of 2026-03-26 unless otherwise noted. All USD figures refer to ADR/ADS-level pricing; CNY-denominated financials are not converted without explicit FX normalization.

Framework Overview

Three valuation frameworks are available: the Penman Residual Income Model (RIM), live relative multiples via yfinance (real-time, 2026-03-26), and 31-analyst consensus. Screening price grade is unavailable. Morningstar multiples are suppressed due to a cross-currency mismatch (quote currency USD, financial-statement currency CNY) — comparing raw Morningstar EV or FCF-derived multiples to a USD market cap would produce invalid yields. Source-provided EV ratios from yfinance (EV/EBITDA 5.24x, EV/Revenue 1.77x) are internally consistent and are preserved.

Cross-Framework Comparison Table

Metric	Penman RIM	yfinance Live (2026-03-26)	Analyst Consensus (2026-03-26)	Divergence Flag
Implied market cap / target	67,581M (intrinsic, g=0)	70,715M (live)	104,160M (mean target)	+54% consensus vs Penman
Margin of safety	−4.4% (overvalued vs intrinsic)	—	+47.3% implied upside	>20%: major divergence
Perpetual growth implied	0.69% (Penman reverse)	—	Implicit in target price	—
P/E trailing	—	14.47x (yfinance)	—	—
P/E forward	—	10.86x (yfinance)	Forward EPS 10.13 → 10.86x	Consistent
EV/EBITDA	—	5.24x (yfinance, CNY-consistent)	—	Cheap vs sector
EV/Revenue	—	1.77x (yfinance, CNY-consistent)	—	—
P/B	—	15.11x (yfinance)	—	Elevated
Earnings yield	—	6.91% (trailing, yfinance)	—	—
EV/EBITDA yield	—	19.08% (yfinance)	—	—
FCF yield	—	Suppressed (USD/CNY mismatch)	—	—
WACC used	9.07%	—	—	113 bps above Ke (7.97%)
Beta	0.86 (5Y monthly, yfinance)	—	—	—

Key Divergences (>20% threshold)

1. Penman RIM vs Analyst Consensus: +54% gap (most material divergence)

The Penman model values NTES at 67,581M at g=0, which sits 4.4% below the live 70,715M market cap — the model characterizes the stock as approximately at intrinsic value with no terminal growth credit. Analyst consensus (31 analysts, mean target 161.94/ADS, implied market cap 104,160M as of 2026-03-26) prices in a 47.3% premium to current market cap and a 54% premium to the Penman estimate. This is a fundamental disagreement about growth, not a minor calibration difference.

The Penman model's g=0 base case is mechanically conservative: any positive reinvestment return above WACC generates upside from zero. Analysts appear to be pricing in meaningful earnings growth — consistent with the forward P/E compressing from 14.47x (trailing) to 10.86x (forward), which, at a constant ADS price, implies consensus forward EPS of 10.13 vs trailing 10.13/7.60 = a ~33% earnings-per-ADS jump embedded in buy-side models.

2. Trailing vs Forward P/E compression: 14.47x → 10.86x (+33% embedded EPS growth)

At an implied ADS price of ~110 (trailing EPS 7.60 × 14.47x ≈ 110), the forward P/E of 10.86x requires forward EPS of 10.13 — a 33% year-over-year increase. This is aggressive given the recent earnings surprise track record (three consecutive misses: −22.4% in Feb 2026, −0.6% Nov 2025, −1.4% Aug 2025). If realized EPS converges to the trailing run rate rather than the consensus estimate, the forward P/E reverts toward 14x+ and the analyst target loses its primary justification.

Penman RIM: Assumptions and Sensitivity

Core assumptions (Penman, date of model run): - WACC: 9.07% (blended; cost of equity Ke = 7.97% = Rf 4.33% + β 0.86 × ERP 4.23%; WACC exceeds Ke by 110 bps, implying debt in the capital structure). - Terminal growth rate (base case): g = 0% (no perpetual growth). - Intrinsic value: 67,581M at g=0. - Implied market-consensus growth (reverse-engineered from 70,715M live market cap): g = 0.69%. The market price requires only 69 bps of perpetual real+nominal growth above WACC to justify current levels — an extremely low hurdle for a scaled Chinese internet platform.

WACC sensitivity (±1%):

WACC Scenario	Intrinsic Value	vs Live Market Cap (70,715M)
WACC −1% (8.07%)	72,267M	+2.2% (slight discount)
Base (9.07%)	67,581M	−4.4% (slight premium to intrinsic)
WACC +1% (10.07%)	63,826M	−9.7% (above intrinsic)

The ±1% WACC band spans 63.8B–72.3B, an 13.2% total range. The model is relatively insensitive to WACC — the intrinsic value does not collapse dramatically with a 100 bp rate shift. This suggests the residual income stream is well-covered by near-term book value accruals and the equity spread (ROE − Ke) is not the sole driver. Note: the real yield at 2.02% (TIPS, 2026-03-25) and the flat-to-inverted short end (10Y−2Y = 0 bps) create modest WACC upward pressure risk if the Fed re-tightens.

Key model risk: Penman uses Compustat fundamentals (book value, earnings) with lag. Given NTES reports in CNY and the ADR ratio can shift the per-share economics, any period mismatch between the equity base in CNY and the USD WACC denominator introduces a structural uncertainty. The Penman value should be treated as directional, not precise.

Live Multiples: Absolute vs Peer Context

Yfinance-sourced live multiples (2026-03-26) place NTES at: - P/E 14.47x trailing / 10.86x forward: Below the S&P 500 trailing median (~21–22x), and below typical US Communication Services sector medians (~18–20x). For Chinese internet peers (Tencent, Bilibili, NetEase's direct ADR comps), the discount reflects persistent China regulatory and ADR delisting risk premium. - EV/EBITDA 5.24x: Low in absolute terms. US gaming/media peers typically trade at 10–14x EV/EBITDA; 5.24x implies a >50% discount to US peer median on this metric. Whether this reflects genuine undervaluation or a structural China discount (regulatory risk, capital control risk, VIE structure) is not resolvable from multiples alone. - EV/Revenue 1.77x: Modest for a scaled internet platform with 30–35%

EBITDA margins implied by the EV/EBITDA and EV/Revenue relationship (EV/EBITDA ÷ EV/Revenue ≈ 33.7% EBITDA margin implied). - P/B 15.11x: Elevated, inconsistent with the EV/EBITDA and P/E picture. A high P/B alongside low P/E typically indicates high return on equity (ROE) — NTES appears to generate high returns on a relatively narrow book base, which is consistent with asset-light gaming/software economics. This also validates why the Penman residual income model, which penalizes low-ROE businesses, arrives at a value near market: the model captures the high-ROE characteristic. - Earnings yield 6.91% (trailing): Attractive in absolute terms relative to the 10Y UST at 4.33% (equity risk spread = 6.91% − 4.33% = 258 bps). EV/EBITDA yield 19.08% (yfinance, CNY-internally consistent) is very high in absolute terms.

Screening price grade: Not available. No peer-relative grade comparison is possible.

Implied Growth Rates Across Frameworks

Framework	Implied Perpetual / Near-Term Growth	Basis
Penman (market price justified at g=)	0.69% perpetual	Reverse-engineered from 70,715M vs intrinsic 67,581M
Forward P/E compression (yfinance)	~33% EPS growth, FY2026E	Trailing EPS 7.60 → forward 10.13
Analyst consensus mean target	Embeds multi-year growth above WACC	Implied 104.2B target = 47% above live cap

There is a significant internal tension: the Penman model says the current market price implies near-zero long-run growth (g=0.69%), yet analyst consensus requires a ~47% valuation re-rating. These are reconcilable only if (a) the current market is underpricing a structural earnings inflection (e.g., new game launches, AI product monetization) that Penman's book-value-anchored framework does not yet capture, or (b) analyst estimates are over-optimistic and will revert. The recent miss pattern (−22.4% in Feb 2026) lends some evidence to scenario (b).

Cross-Currency and Data Quality Notes

- FCF yield: Suppressed. Computing FCF yield requires dividing CNY-denominated free cash flow by USD-denominated market cap — this is invalid without FX normalization. No FX rate has been applied.
- Morningstar multiples: Suppressed for the same cross-currency reason.
- Penman model: Uses USD WACC against a book value base likely reported in CNY and translated. Treat as directional.
- EV/EBITDA and EV/Revenue from yfinance are preserved as they are source-provided internally consistent ratios (EV and EBITDA both in CNY), not cross-currency constructs.
- Analyst target (161.94 mean) is expressed in USD per ADS. The 47.3% implied upside is relative to the live USD ADS price as of 2026-03-26.
- Earnings surprises: The May 2026 row shows est=15.5, actual=NaN — this is a future quarter, not a reported miss. The three actual data points are Feb 2026 (−22.4%), Nov 2025 (−0.6%), Aug 2025 (−1.4%). Beats count = 0 out of 3 reported quarters.

Framework Agreement and Divergence Summary

Where frameworks agree: - Current market price is near the low end of fair-value estimates (Penman: −4.4% MoS; live P/E below sector median). - Earnings growth is priced into forward estimates (forward P/E < trailing P/E across all sources). - The stock is not obviously expensive on absolute multiple metrics (P/E <15x, EV/EBITDA <6x).

Where frameworks diverge materially (>20%): - Penman vs consensus: 67.6B intrinsic vs 104.2B analyst target — a 54% gap driven entirely by the growth assumption embedded in analyst models versus Penman's g≈0 base. - Penman WACC sensitivity vs consensus: Even at WACC−1%, Penman reaches only 72.3B, still 31% below the analyst target. The analyst target cannot be reconciled with the Penman framework at any reasonable WACC adjustment — it requires structural earnings-growth credit that RIM does not grant until realized in book value. -

EV/EBITDA absolute vs US peer median: 5.24x vs ~10–14x US peers (>20% discount) — likely reflecting a China risk premium rather than operational underperformance.

Sources: Penman RIM (model run, date not specified in data); yfinance live (2026-03-26 22:26 UTC); analyst consensus (2026-03-26 22:26 UTC); market context FRED/Bloomberg (2026-03-25).

Supplemental Analysis

§1 — Debt Composition: Historical High-Rate Instruments (5%, 6%) and Stock Option Risk-Free Rate (3.45%)

Early-stage credit facilities at 5% and 6% (FY2004, fully retired): NetEase's FY2004 20-F footnotes disclose two pre-scale financing instruments: one bearing 6% per annum compounded annually and a second at 5%, described as "repayable on" a fixed date. Both are distinct from the zero-coupon convertible subordinated notes due July 15, 2023 that dominated the FY2003–FY2008 debt structure. These facilities were retired no later than FY2010 and carry no residual balance on the current balance sheet. FY2024 total debt stands at 1.73B (1.67B short-term + 60M long-term, SimFin FY2024), and no active instrument in the disclosed footnote record carries a rate above 1.29%. The 5% and 6% rates therefore have no bearing on current interest coverage (6.0x TTM, SimFin FY2024 TTM). (Source: NTES FY2004 20-F, debt_covenants footnote)

3.45% is a Black-Scholes input, not a debt coupon: The FY2006 20-F stock compensation footnote discloses a risk-free rate assumption of 3.45% for the FY2005 grant cohort and 3.66% for FY2006 grants, used to value employee stock options under Black-Scholes. The filing presents this figure explicitly as "Risk free interest rate" alongside expected life and volatility parameters — it is a U.S. Treasury rate proxy for option pricing, not the coupon on any borrowing. It is not comparable to the 0.96%–1.29% range of the senior unsecured note coupons disclosed in the FY2013–FY2016 filings. (Source: NTES FY2006 20-F, stock compensation / debt_covenants footnote)

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§3 — Contingent Liabilities: NOL Carryforward — Full Historical Sequence

The following table assembles all disclosed NOL carryforward balances from the income tax deferred-tax footnotes of consecutive 20-F filings:

Filing Year	NOL Carryforward (as reported)	vs. Prior Year
FY2006	6,949,734	First available disclosure
FY2007	3,276,955 (current year); 6,949,734 (prior-year comparison)	↓ Partial utilization
FY2008	3,276,955 (current year); 10,983,807 (prior-year column)	Flat at 3.3M current
FY2009	10,723,973 (current year); 10,983,807 (prior-year comparison)	↑ Rebuilt to ~10.7M; last disclosed

(Source: NTES FY2006–FY2009 20-F filings, income_taxes footnote — units reflect USD-denominated reporting in early NTES annual filings)

At current profitability (4.05B operating income FY2024, SimFin FY2024), all of these early-period NOLs are fully consumed. The FY2009 figure of ~10.7M USD is the last disclosed amount, consistent with the report's prior reference. The FY2007 decline from ~6.95M to ~3.28M reflects partial utilization as online games revenue scaled. The FY2009 rebound and subsequent disappearance from footnotes indicates full absorption prior to FY2010. These positions carry zero current tax benefit and are presented solely for completeness of the historical footnote record.

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§8 — Off-Balance-Sheet Exposures: Complete Lease Duration and Liability History (2019–2024)

Weighted average remaining lease term — full trajectory:

Year-end	Wtd. Avg. Remaining Lease Term	Disclosed In
Dec 31, 2019	1.93 years	FY2020 20-F, Note 10 (leases)
Dec 31, 2020	2.27 years	FY2020/FY2021 20-F, Note 10 (leases)

Year-end	Wtd. Avg. Remaining Lease Term	Disclosed In
Dec 31, 2021	2.84 years	FY2022 20-F, Note 10 (leases)
Dec 31, 2022	3.22 years	FY2023 20-F, Note 10 (leases)
Dec 31, 2023	2.92 years	FY2024 20-F, Note 10 (leases)
Dec 31, 2024	2.87 years	FY2024 20-F, Note 10 (leases)

The trajectory reveals a U-shaped arc: lease terms compressed to 1.93 years at year-end 2019 — the shortest observable point — then extended steadily through 2022 (3.22 years, the disclosed maximum) as NetEase expanded Hangzhou and Guangzhou campus commitments, before contracting back to 2.87 years by FY2024. The 2022 peak (3.22 years) coincides with the company's peak headcount and office expansion period.

Historical operating lease liabilities — FY2020 balances (from FY2021 comparative disclosure):

The FY2021 20-F presents a two-year comparative lease liability schedule in USD. The FY2020 column (prior year, not previously tabulated) discloses:

Category	Dec 31, 2020	Dec 31, 2021	Source
Short-term operating lease liabilities	USD 18,003K (~18M)	USD 24,991K	FY2021 20-F, lease footnote
Long-term operating lease liabilities	USD 19,619K (~19M)	USD 34,077K	FY2021 20-F, lease footnote
Total	~37.6M	~59.1M	

(Source: NTES FY2021 20-F, lease footnote — USD-denominated presentation)

In absolute terms the 2020 balances are sub-threshold relative to FY2020 revenue (<5%). They establish the baseline from which liabilities scaled: by FY2022 (RMB-denominated), short-term reached RMB 334,399K and long-term RMB 732,127K (FY2022 20-F comparative), reflecting the 2021–2022 office expansion coinciding with the weighted-average term extension from 2.27 to 3.22 years. The subsequent decline — short-term liabilities falling from RMB 334,399K (FY2021) to RMB 171,609K (FY2024), per FY2024 20-F Note 10 — confirms a deliberate reduction in near-term lease commitments aligned with the compression in weighted average remaining term.

Supplement A: FY2021 Term Loan–Adjacent Deferred Revenue Components

Source: 20-F FY2021 revenue_recognition footnote extractions (conf=0.50 for all items); values in RMB thousands unless noted.

The FY2021 filing footnote data contains two deferred revenue references appearing in the same note context as term loan disclosures. The extractors labeled these "rm loan" and "term loan" but the co-presentation is likely structural (same balance-sheet table or footnote) rather than a causal link between the debt instrument and the deferred revenue balance.

Extracted Label	Extracted Numeric	Evidence Fragment	Interpretation
"rm loan" (= term loan), Note 16 reference	10,398,872 (opening) → ~12,132,xxx (closing, truncated)	`deferred revenue 16 10,398,872 12,132…`	Note 16 cross-reference; deferred revenue balance ≈ RMB 10.4B → RMB 12.1B; not a loan amount
Term loan co-presented row	9,304,037 (opening) → ~10,751,9xx (closing, truncated)	`term loans 52,963 deferred revenue 9,304,037 10,751,91…`	Term loans outstanding ≈ RMB 53M appear in same table row as deferred revenue ≈ RMB 9.3B → RMB 10.8B
Separate smaller component	883,742 (FY2020) → 2,342,916 (FY2021)	`deferred revenue 883,742 2,342,916 1,3…`	Distinct sub-component, possibly current-period slice or education/music segment

Contextual note on the FY2021 figures: The RMB 9.3B–10.4B deferred revenue balances are consistent with NTES's gaming virtual-currency prepayments and multi-period subscription contracts (music, education). The term loan balance of ~RMB 53M is three orders of magnitude smaller and does not explain the deferred revenue scale; co-location in the same footnote table is the most likely reason for the extracted label. The FY2022 balance sheet (SimFin annual) shows Total Liabilities of 8.99B with Short-Term Debt of 3.39B and Long-Term Debt of $514M—no term-loan-linked deferred revenue persists as a distinct balance-sheet line by FY2022.

All values carry extraction confidence 0.50 and closing-year figures are truncated in the source evidence strings.

Supplement B: Pre-2017 Deferred Revenue History — FY2004–FY2016

Source: 20-F annual filing footnote extractions, revenue_recognition category, FY2004–FY2016 (conf=0.50 for all items). Evidence strings present comparative balance-sheet columns (year_t−1 → year_t pairs). Reporting currency may differ across periods: early 20-F filings used USD; later filings use RMB thousands. Unit ambiguity is flagged per row.

Filing Year	Opening Balance	Closing Balance	Implied Unit	Source
FY2004	—	~134,896,863	Unclear (full USD or RMB units)	20-F FY2004, rev_recognition fn; note ref “13” co-present
FY2005	~134,896,863	— (truncated)	Same as FY2004	20-F FY2005, rev_recognition fn; note ref “12” co-present
FY2006	~231,670,971 (Line A) / ~77,169,729 (Line B)	~385,7xx / ~96,774,10x	Full units (USD or RMB)	20-F FY2006; two distinct deferred revenue lines visible
FY2007	~96,774,108	~154,049,7xx	Full units	20-F FY2007; consistent with FY2006 Line B closing
FY2008	~354,966,697 (opening per FY2008 filing)	~447,7xx (truncated)	Full units	20-F FY2008; evidence: `deferred revenue 13 354,966,697 447,7…`
FY2009	~447,725,795	~583,469,5xx	Full RMB units (≈ RMB 448M → RMB 583M)	20-F FY2009; evidence: `deferred revenue 447,725,795 583,469,5…`
FY2010	~583,470	~773,952	RMB thousands (≈ RMB 583M → RMB 774M)	20-F FY2010; secondary line: 92,759 → 135,744
FY2011	~773,952	~1,014,073	RMB thousands (≈ RMB 774M → RMB 1,014M)	20-F FY2011; evidence: `deferred revenue 773,952 1,014,073 161,…`
FY2012	~1,014,073	~1,160,018 (primary)	RMB thousands (≈ RMB 1,014M → RMB 1,160M)	20-F FY2012; second component: 190,482 → 240,121
FY2013	~240,121	~145,946	RMB thousands (≈ RMB 240M → RMB 146M)	20-F FY2013; step-down — possible large recognition event or segment reclassification
FY2014	~145,946	~321,018	RMB thousands (≈ RMB 146M → RMB 321M)	20-F FY2014; rebound after FY2013 drawdown
FY2015	~321,018	~486,744	RMB thousands (≈ RMB 321M → RMB 487M)	20-F FY2015; steady uptrend resumes
FY2016	~486,744	~2,683,970	RMB thousands (≈ RMB 487M → RMB 2,684M)	20-F FY2016; +450% step-change entering FY2017

Trajectory Narrative

Phase 1 — Early Gaming Era (FY2004–FY2008): Deferred revenue was relatively modest, in the range of approximately RMB 77M–354M, reflecting virtual-currency prepayments for online gaming. Multiple lines existed even at this stage (two distinct extractions visible for FY2006), suggesting current/non-current splits or product-segment breakouts were present from early filings.

Phase 2 — Rapid Accumulation (FY2009–FY2012): The balance roughly doubled each year from ~RMB 448M (FY2009) to ~RMB 1,014M–1,160M (FY2011–FY2012), driven by gaming volume growth and increasingly complex multi-period recognition. The FY2009 value of ~RMB 448M represents the clearest single-line read; FY2012's ~RMB 1.16B is the apparent peak for this phase.

Phase 3 — Drawdown and Realignment (FY2013): The FY2013 balance declined sharply to ~RMB 240M (opening) → ~RMB 146M (closing). Extraction confidence is 0.50 and the FY2012→FY2013 discontinuity may reflect a large revenue recognition acceleration, a segment reclassification (e.g., moving a component off-balance-sheet or into a subsidiary), or a reporting unit change. No higher-confidence source resolves this.

Phase 4 — Re-acceleration through FY2016: From ~RMB 146M in FY2013 the balance rebuilt steadily (+120% FY2013→FY2014, +52% FY2014→FY2015, +450% FY2015→FY2016), with the FY2016 close of ~RMB 2,684M representing the entry point for the post-2017 series. The FY2016 step-change is consistent with NetEase's expansion into online education (NetEase Youdao), music streaming (NetEase Cloud Music), and e-commerce (Yanxuan) — all of which generate large upfront subscription or membership deferred revenue.

Continuity with post-2017 series: The FY2017 opening (~RMB 2,684M) per the 20-F FY2017 extraction (`deferred revenue 2,683,970 2,879,489`) directly matches the FY2016 closing value, confirming the series is continuous across the 2016–2017 boundary. The pre-2017 trajectory is therefore directionally consistent with the post-2017 pattern — deferred revenue was growing rapidly before 2017, not declining, and the FY2016 level (~RMB 2.7B) is a natural predecessor to the post-2017 balances shown in the main report.

Limitations and Confidence

1. Extraction confidence: All 20-F revenue_recognition extractions for FY2004–FY2016 carry conf=0.50 (pipeline did not achieve high-confidence reads for these early filings).
2. Truncated evidence: Closing-year values for FY2005, FY2007, FY2008 are partially truncated in the source evidence strings; full precision is unavailable from footnote extraction alone.
3. Currency unit ambiguity: FY2004–FY2009 filings may present amounts in full USD or RMB units (not thousands); FY2010 onward appears to use RMB thousands. Direct comparison across the FY2008→FY2009 boundary requires verification against primary 20-F filing documents.
4. Multiple lines: Several years (FY2006, FY2010, FY2012) show two distinct deferred revenue extractions in the same filing. Where both are shown above, only the primary (larger) line is used for the trajectory narrative; the secondary component likely represents a current-portion split.

Supplemental Clarifications

Lease Footprint Correction

The lease-cost contraction narrative should anchor from FY2021, not FY2022. The primary filing evidence is explicit:

- NetEase 2023 20-F lease table lists operating lease cost of RMB 461,542K, 409,196K, and 344,606K for FY2021, FY2022, and FY2023, respectively.
- NetEase 2024 20-F lease table lists operating lease cost of RMB 409,196K, 344,606K, and 249,169K for FY2022, FY2023, and FY2024, respectively.

That means lease expense declined 46.0% from the FY2021 peak to FY2024 (`249,169 / 461,542 - 1`), not 39% from FY2022 to FY2024. The earlier discussion direction was correct, but it understated the magnitude of footprint contraction by using FY2022 as the starting point.

Deferred Revenue Clarification

The stray value **`165,`** is not an unmapped deferred-revenue balance in the early 20-F series. It comes from the FY2004 statement of cash flows, where the line "Increase (decrease) in deferred revenue" shows **`165,115`**. That is a working-capital change item, not a balance-sheet closing value, so it should not be inserted into the deferred-revenue trajectory.

The balance-sheet trajectory remains internally consistent without using that `165,115` delta:

- FY2004 close: RMB 134,896,863
- FY2005 close: RMB 231,670,971
- FY2006 close: RMB 385,720,720
- FY2007 close: RMB 354,966,697
- FY2008 close: RMB 447,725,795
- FY2009 close: RMB 583,469,528
- FY2010 close: RMB 773,952K
- FY2011 close: RMB 1,014,073K
- FY2012 close: RMB 1,160,018K

So the Phase 1 to Phase 2 deferred-revenue transition is noisy because of unit changes and multiple line items, but the apparent `165,` break is a classification artifact rather than a missing balance.