

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 53378 / February 27, 2006

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 2383 / February 27, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12218

_____	:	ORDER INSTITUTING PROCEEDINGS
In the Matter of	:	PURSUANT TO SECTION 21C OF THE
Geoffrey Jie Wei, CPA (China),	:	SECURITIES EXCHANGE ACT
Respondent.	:	OF 1934 AND RULE 102(e) OF THE
_____	:	COMMISSION'S RULES OF PRACTICE,
	:	MAKING FINDINGS AND IMPOSING
	:	REMEDIAL SANCTIONS AND A CEASE-
	:	AND-DESIST ORDER
	:	

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(iii) of the Commission’s Rules of Practice¹ against Geoffrey Jie Wei (“Wei” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondent and the subject matter of these proceedings, which Respondent admits,

¹ Rule 102(e)(1)(iii) provides, in pertinent part, that:

The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have willfully violated, or willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

Respondent consents to the issuance of this Order Instituting Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission's Rules of Practice, Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds² that:

A. Respondent

Geoffrey Jie Wei, age 38, is a citizen of China. Wei was NetEase.com, Inc.'s ("NetEase" or the "Company") Vice President of Finance and Chief Accountant in 2000. Wei also was the Acting CFO from January 2001 until September 2001, when he resigned from the Company. Wei obtained a CPA certification in China in 1996 and previously worked for PricewaterhouseCoopers and KPMG. Wei currently is a director (and formerly served as chairman of the audit committee) of The Hartcourt Companies, Inc., a company based in China whose American Depositary Shares ("ADS") are registered with the Commission under Section 12(g) of the Exchange Act and are quoted on the OTC bulletin board.

B. Other Relevant Parties

NetEase.com, Inc. is a Cayman Islands corporation established in July 1999 to conduct an Internet business in China. In June 2000, NetEase raised \$65 million in an initial public offering in the United States. NetEase offers a wide range of Internet services to Chinese customers including news, email, instant messaging, chat rooms and online auctions. During the relevant time, NetEase had approximately 250 employees and operated through offices in Beijing, Shanghai and Guangzhou, China. NetEase's ADS are registered with the Commission pursuant to Section 12(g) of the Exchange Act and trade on the Nasdaq Stock Market under the ticker symbol NTES.

C. Facts

1. Summary

During 2000 and 2001, NetEase employees circumvented the Company's internal accounting controls and falsified the Company's books and records in connection with hundreds of advertising and e-commerce contracts. NetEase then recorded revenue from the transactions in a manner that did not conform with U.S. Generally Accepted Accounting Principles ("GAAP"). As a result, NetEase materially overstated its revenue and made numerous false and misleading statements about its financial condition in

² The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

annual and periodic reports filed with the Commission and in other public statements, including earnings releases.³

Wei was aware of, or was reckless in not knowing of, the improper revenue recognition practices of the Company. Wei warned a NetEase officer that the company's revenue recognition practices were illegal. Despite his own warnings, Wei failed to stop or was reckless in not detecting that NetEase staff was altering advertising contracts to improperly accelerate revenue recognition. Wei also signed a false or misleading management representation letter to NetEase's independent auditor in connection with their fiscal 2000 audit.

In part, as a result of Wei's conduct or failures to act, NetEase materially overstated its revenue and net income in financial statements furnished to the Commission. By engaging in this conduct, Wei willfully violated Rules 13b2-1 and 13b2-2 under the Exchange Act and willfully aided and abetted and was a cause of NetEase's violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20 and 13a-16 thereunder.

2. Background

In April 2001, a potential purchaser of NetEase identified and questioned a large amount of past due accounts receivable balances. As a result, NetEase's audit committee conducted an internal investigation, which found that the Company's management had directed employees to circumvent internal controls on a widespread basis causing the Company to materially overstate revenue. Specifically, NetEase materially inflated revenue by \$4.3 million, or 109%, and understated net loss by 16% for the fiscal year ended December 31, 2000. NetEase also overstated revenue by approximately 5%, 36%, 138%, 290%, and 116% for the fiscal quarters ended March 31, June 30, September 30, and December 31, 2000, and March 31, 2001, respectively, and understated net loss by 6%, 20% and 23% for the final three quarters in year 2000. To correct its improper accounting, NetEase restated previously reported fiscal year 2000 financial results and corrected, before public dissemination, its financial results for the quarter ended March 31, 2001.

3. Relevant GAAP

GAAP permits revenue recognition when, among other things, the seller has provided the product or service to the customer. Statement of Financial Accounting Concepts No. 5, "*Recognition and Measurement in Financial Statements of Business Enterprises.*" When a company renders services over time, revenue generally is recognized on a straight line basis over the service period. Staff Accounting Bulletin: No. 101, "*Revenue Recognition in Financial Statements.*" For barter transactions, a company is required to record revenue based on the fair values of the assets or services exchanged by the parties. Accounting Principles Board Opinion No. 29, "*Accounting for*

³ The Commission filed a related case against NetEase in Federal District Court on February 27, 2006.

Nonmonetary Transactions”; Emerging Issues Task Force Issue No. 99-17, “*Accounting for Advertising Barter Transactions*.” Finally, GAAP requires that companies account for transactions in accordance with their substance, rather than their form. Statement of Financial Accounting Concepts No. 2, “*Qualitative Characteristics of Accounting Information*.”

As is discussed below, NetEase improperly accounted for hundreds of advertising and e-commerce transactions during 2000 and 2001. For some arrangements, NetEase’s accounting did not conform with GAAP because the Company recognized revenue when it had not rendered any services to the customer. In other instances, NetEase improperly accelerated revenue recognition by recording revenue over an artificially shortened service period. Finally, NetEase improperly recognized revenue in connection with barter arrangements lacking economic substance in that neither party provided any products or services to the other or because the Company had no evidence establishing that anything of value was provided.

4. Circumvention of Internal Controls

NetEase established a system of internal accounting controls in 2000 that segregated revenue recognition controls among three departments – Sales, Contracts and Finance. The Sales Department was responsible for negotiating contracts. The Contracts Department was responsible for signing contracts, arranging for advertising placements, and completing documents evidencing that the advertisements were shown on NetEase’s website. The Finance Department was responsible for affixing NetEase’s corporate seal on the contracts and for preparing revenue recognition journal entries. However, this system did not provide reasonable assurances that services actually were performed before recognizing revenue. NetEase also failed to maintain its internal controls by verifying whether NetEase employees were complying with them.

In 2000 and 2001, NetEase’s employees in these departments circumvented the Company’s internal controls in order to materially inflate reported revenue. NetEase’s improper revenue recognition can be classified into the following three categories, even though some transactions may involve more than one category:

- a. Recording approximately \$2 million in revenue in connection with barter arrangements lacking economic substance;
- b. Shifting approximately \$1.1 million in revenue into earlier quarters by artificially bifurcating advertising arrangements with customers into two contracts and improperly recognizing revenue over a shortened time. NetEase employees referred to this technique as “revenue-brought-forward”; and
- c. Recording approximately \$1.2 million of revenue in fictitious revenue in situations in which NetEase had not performed the required advertising or e-commerce services.

For all three categories, NetEase's Contracts Department, which was responsible for arranging for the provision of the services, prepared reports falsely showing that NetEase had performed the advertising. The Finance Department, which placed the Company's seal on the contracts, prepared revenue recognition journal entries using the Contract Department's false performance records. Finally, the Sales Department artificially bifurcated sales arrangements into two contracts in order to accelerate revenue into earlier quarters. For example, a contract having a six-month term was divided into two agreements, one having a three-month term and another "bonus contract" for which NetEase provided "free" services for three additional months. Contrary to GAAP, NetEase recognized revenue over the shortened three-month period instead of the true term of six months. To identify which contracts to conceal from its independent auditor, employees marked the initial contracts with the prefix "G" and the bonus contracts with the prefix "Z."

5. Wei's Involvement in NetEase's Improper Recognition of Revenue

During the time of the company's improper revenue recognition, Wei was NetEase's Vice President of Finance and Chief Accountant and was, in conjunction with the CFO, responsible for NetEase's accounting policies and preparation of its financial statements. During part of this time, Wei also was the Acting CFO. Wei advised members of the sales department that the "revenue brought forward" technique was improper. Despite his knowledge that the practice was improper, and despite his responsibility for the company's accounting, Wei did not stop the practice or bring it to the attention of NetEase's board or independent auditor. Instead, Wei was aware, or was reckless in not knowing, that sales department staff were altering contracts in a manner that would accelerate recognition of revenue into earlier periods. The altered periods did not reflect the true terms of the payment arrangements and resulted in the premature recognition of revenue by NetEase.

On February 14, 2001, in connection with the audit of NetEase's fiscal 2000 financial results, Wei signed NetEase's management representation letter to its independent auditor. In the letter, Wei stated, among other things, that NetEase's financial statements were "fairly presented" in conformance with GAAP; that the Company and its executives, including Wei, had given the auditor "all financial records and related data"; and that all material transactions had been properly recorded in the Company's accounting records. Wei was reckless in making these representations, which were not true. Based in part on this letter, NetEase's auditor issued an audit report containing an unqualified opinion for fiscal 2000, which was included in the Company's annual report disseminated to investors along with proxy materials.

6. False Financial Results

NetEase publicly disseminated materially false and misleading financial results for the quarters ended March 31, June 30, and September 30, 2000, and the quarter and year ended December 31, 2000, as follows:

- a. First Quarter Ended March 31, 2000 – NetEase’s registration statement for its June 30, 2000 IPO, which was filed with the Commission on June 29, 2000, included financial statements for the quarter ended March 31, 2000, which overstated quarterly revenue by approximately 5%.
- b. Second Quarter Ended June 30, 2000 – NetEase’s earnings press release issued on July 31, 2000, and Form 6-K furnished to the Commission on or about August 3, 2000, overstated second quarter revenue by approximately 36% and understated net loss by 6%. The earnings release also falsely claimed 103% revenue growth over the previous quarter. The restated results reflect 56% growth.
- c. Third Quarter Ended September 30, 2000 – NetEase’s earnings press release issued on October 31, 2000, and Form 6-K furnished the same day, overstated quarterly revenue by approximately 138% and understated net loss by 20%. The press release falsely claimed revenue growth of 47% over the previous quarter and a 539% increase over the same quarter in the prior year. The restated results reflect a 16% decline in revenue from the previous quarter and a 169% increase from the prior year’s quarter.
- d. Fourth Quarter Ended December 31, 2000 – NetEase’s earnings press release for the quarter and year ended December 31, 2000 (issued on March 1, 2001), and Form 6-K furnished to the Commission the same day, overstated quarterly revenue by approximately 290% and annual revenue by 109% and understated net loss by 23% for the quarter and 16% for the year. The earnings release claimed fourth quarter revenue growth of 25% over the previous quarter and a 159% increase over the same quarter in the prior year. The release also claimed that full year 2000 revenue increased 311% over the prior year. The restated fourth quarter results reflect a 24% drop from the previous quarter, a 34% drop from the prior year’s quarter, and the restated full year results reflect a 97% increase from the prior year. NetEase falsely attributed increases in its advertising revenue to a continued increase in the number of advertisers as well the size of their purchases.
- e. Year Ended December 31, 2000 – NetEase’s glossy annual report for fiscal 2000, which was disseminated to investors with the Company’s proxy materials on or about April 1, 2001, overstated full year revenue by \$4.3 million, or 109% (\$4.0 million versus \$8.3 million), understated its net loss by \$3.2 million, or 16% (-\$20.5 million versus -\$17.3 million) and understated its ADS loss per share by \$.13, or 16% (-\$.82 versus -\$1.69). The glossy annual report falsely represented that NetEase’s annual advertising revenue grew by 456% (\$1.3 million to \$7.3 million). The Company’s annual report on Form 20-F for fiscal 2000, which was filed with the Commission on August 31, 2001, included corrected financial results (based upon the August 2001 restatement).

IV.

LEGAL DISCUSSION

A. Geoffrey Wei Willfully Aided and Abetted and Was a Cause of NetEase's Violations of the Reporting and Recordkeeping Provisions of the Exchange Act

Section 13(a) of the Exchange Act and Rule 13a-16 thereunder generally require foreign private issuers with securities registered under Section 12 of the Exchange Act to file certain reports on Form 6-K with the Commission. The obligation to file such reports includes the requirement that they be true and correct. Exchange Act Rule 12b-20 provides that in addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they were made, not misleading. Financial statements in Commission filings that do not comply with GAAP are presumed to be misleading. Regulation S-X, 17 C.F.R. 210.4-01(a)(1).

Section 13(b)(2)(A) of the Exchange Act requires Section 12 registrants to make and keep books, records, and accounts that accurately and fairly reflect their transactions and dispositions of their assets. Section 13(b)(2)(B) of the Exchange Act requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain the accountability of assets.

No showing of scienter is required to prove violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B). See, e.g., SEC v. Savoy Indus., Inc., 587 F.2d 1149, 1165 (D.C. Cir. 1978), cert. denied, 440 U.S. 913 (1979); SEC v. World-Wide Coin Investments, Ltd., 567 F. Supp. 747, 749-50 (N.D. Ga. 1983).

As discussed above, NetEase's books and records did not accurately and fairly reflect the terms of contracts that NetEase personnel had altered to accelerate revenue into the first quarter of 2001. Wei was aware of, or was reckless in not knowing of, some of these changes. Wei also was aware, or reckless in not knowing, that the Company's prior filings with the Commission materially overstated its revenue. By this conduct, Wei willfully aided and abetted and was a cause of NetEase's violations of the reporting, recordkeeping and internal controls provisions of the Exchange Act.

B. Wei Willfully Violated Exchange Act Rules 13b2-1 and 13b2-2

Rule 13b2-1 of the Exchange Act prohibits any person from, directly or indirectly, falsifying or causing to be falsified any book, record or account subject to Section 13(b)(2)(A). Rule 13b2-2 of the Exchange Act prohibits directors and officers from, directly or indirectly, making or causing to be made materially false or misleading statements to an accountant in connection with an audit or the preparation of Commission

filings. As detailed above, Wei was aware, or was reckless in not knowing, that alterations to contracts were made for the purpose of improperly accelerating NetEase's recognition of revenue. Wei also signed an inaccurate management representation letter to the auditor, which it relied on in issuing an audit report containing an unqualified opinion for NetEase's fiscal 2000 financial statements. As a result, Wei willfully violated Rules 13b2-1 and 13b2-2 of the Exchange Act.

V.

Based on the foregoing, the Commission finds that Geoffrey Wei willfully violated Rules 13b2-1 and 13b2-2 of the Exchange Act, and willfully aided and abetted and was a cause of NetEase.com, Inc.'s violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20 and 13a-16 thereunder.

VI.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, **IT IS HEREBY ORDERED**, effective immediately, that:

A. Geoffrey Wei shall cease and desist from committing or causing any violations and any future violations of Rules 13b2-1 and 13b2-2 of the Exchange Act, and from causing any violations and any future violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20 and 13a-16 thereunder.

B. Geoffrey Wei is denied the privilege of appearing or practicing before the Commission as an accountant.

C. After one year from the date of this order, Respondent may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Respondent's work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

2. an independent accountant. Such an application must satisfy the Commission that:

(a) Respondent, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board")

in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

(b) Respondent, or the registered public accounting firm with which he is associated, has been inspected by the Board or an approved foreign oversight body in cooperation with the Board, and that inspection did not identify any criticisms of or potential defects in the Respondent's or the firm's quality control system that would indicate that Respondent will not receive appropriate supervision or, if the Board has not conducted an inspection, has received an unqualified report relating to his, or the firm's, most recent peer review conducted in accordance with the guidelines adopted by the former SEC Practice Section of the American Institute of Certified Public Accountants Division for CPA Firms or an organization providing equivalent oversight and quality control functions;

(c) Respondent has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and

(d) Respondent acknowledges his responsibility, as long as Respondent appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

D. The Commission will consider an application by Respondent to resume appearing or practicing before the Commission provided that his CPA certification in China is current and he has resolved any disciplinary issues with the applicable accountancy authority in China. However, if the resolution of any disciplinary action by an accountancy authority is dependant on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Respondent's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Nancy M. Morris
Secretary